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Punishing Smarter

Penal Reforms for the 1990s

John J. DiIulio, Jr.

Months before the 1988 presidential campaign made Willie Horton a household name, California Governor George Deukmejian was asked to restate his position on supervising convicted criminals in the community instead of behind bars. The governor responded that he would embrace alternatives to incarceration when criminals embraced alternatives to crime.

That was a neat remark, especially since, as the governor spoke, California already had more than 200,000 convicted criminals on probation and more than 35,000 on parole — about three times as many offenders “doing time” on its streets as it had locked up inside its terribly overcrowded prisons and jails.

Basic facts have a way of getting lost in discussions of correctional policy. Perhaps that is because the facts are perplexing and discouraging. I have spent much of the last decade as a researcher and consultant in the correctional trenches, and during that time things never looked quite so unmanageable as they do today.

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But there are correctional strategies that, if adopted wisely and widely, will protect the public and its purse more effectively than conventional approaches. There are cost-effective ways of enhancing the life prospects of convicted criminals without betraying the legitimate desires of their victims and the general public for retribution.

A steady increase in both the number of citizens behind bars and in the number under community-based supervision is inevitable. Yet, the 1990s can be the decade when “punishing harder” gives way to “punishing smarter.” Just as the 1980s saw the emergence of an intelligent consensus on welfare reform, so may the 1990s witness the emergence of an intelligent consensus on penal reform.

For that to happen, however, the federal government must begin to treat corrections as the major national domestic public policy issue that it has become. The federal prison system may well double in size over the next 10 years, and state and local corrections systems are already desperate for help. Furthermore, unless corrections and related criminal justice issues are addressed more thoughtfully than they have been, the problems of the urban underclass can only grow worse.

Soaring Correctional Populations

In the 1980s overcrowding behind bars has been accompanied by “overloading” on the streets. Between 1983 and 1987 the nation’s probation and parole populations increased faster than its prison and jail populations (see table 1). Today, about 3.5 million citizens live under some form of

Table 1. Corrections Population, 1983-87

	1983		1987		% Increase, 1983-87
	Number	% of Adult Population	Number	% of Adult Population	
Prison	423,898	.25%	562,623	.31%	32.7%
Jail	221,815	.13	294,092	.16	32.6
Parole	246,440	.14	362,192	.20	47.0
Probation	1,582,947	.92	2,242,053	1.25	41.6
Total	2,475,100	1.44	3,460,960	1.92	39.8

Note: Population counts for probation, parole, and prison custody are for December 31; jail counts are for June 30. The figures for jail populations include convicted and unconvicted adult inmates.

Source: Bureau of Justice Statistics, *Probation and Parole, 1987*.

correctional supervision. More than 900,000 are in prison or jail, while nearly 2.6 million are on probation or parole.

Historically, minority males have been placed under correctional supervision at much higher rates than white males, while women, minority and white, have been a negligible fraction of the prison population. In the 1980s the former gap has widened while the latter gap has narrowed slightly. About 10 percent of all adult black males live under some form of correctional supervision; for adult white males, the figure is closer to 1 of every 35. In 1981 about 4.2 percent of the nation's prison population was female; by the start of 1988 that figure had jumped to 5 percent. By the end of 1988 more than 30,000 women were imprisoned.

Like their male counterparts, women under correctional supervision have become not only more numerous but more hard core. Over 90 percent of all prisoners are violent offenders, repeat offenders (two or more felony convictions), or violent repeat offenders. But because of overcrowding and related pressures, these chronic and violent offenders — corrections workers often refer to them as "heavies" — are being released in record times and in record numbers.

A 1987 study by the U.S. Bureau of Justice Statistics showed that violent criminals (murderers, rapists, robbers, and others guilty of crimes against people) serve about half of their sentence time in the community; many classes of nonviolent offenders spend less than a third of their sentence time behind bars. In many prison and jail systems, early release programs have been institutionalized.

More Incarceration, Less Crime?

Has this increased reliance on community-based supervision had any effect on crime rates? In publicizing the Willie Horton incident — in which a murderer furloughed in Massachusetts sexually assaulted a Maryland woman — the

1988 presidential campaign spotlighted a general issue that corrections policymakers, administrators, and analysts have been debating for years (often with only slightly greater calm and intelligence than it was "debated" in the campaign); namely, do crime rates go down when incarceration rates go up?

Many believe that they do, and that the increased use of alternatives to incarceration, and related "liberal" penal reform measures such as prison furloughs and early release programs, are responsible for increased rates of crime, especially increased rates of violent crime.

The evidence for this view is largely anecdotal, and some of the anecdotes are more telling than others. Though the tragedy was real, the infamous Horton anecdote was hollow. Over 99.5 percent of prison furloughs result neither in a violation of the terms of the furlough nor in a new crime. In 1987, for example, some 50,000 prisoners were granted more than 200,000 furloughs, virtually all of them without incident. Most jurisdictions furlough violent offenders, including murderers. But most agencies, including the federal system, do not furlough prisoners convicted of murder in the first degree, and most grant furloughs only to inmates who are within months of their official release dates. Even though it was one of only two states that furloughed persons serving sentences of life without possibility of parole (the other was North Carolina), and even though the process by which prisoners were selected for furloughs (and monitored once beyond the walls) was arguably quite weak, statistically, the Massachusetts program that furloughed Horton was even more successful than the norm.

Before Horton, however, the anti-alternatives anecdote of choice involved a Michigan convict who committed other crimes while on parole. In 1975 Wayne Lammar Harvey wantonly killed two people in a Detroit bar. He bargained the charges against him down to second-degree

murder and was sentenced to 20-40 years. On his first day in prison, he received nearly 10 years of "good-time" credits. Though he committed dozens of major prison rule violations during his incarceration in a Michigan prison, his credits were never revoked. His confinement time was further reduced under the state's early release program, and he was paroled in mid-1984. Three months later he and an accomplice killed a 41-year-old East Lansing police officer, the father of six. He then went to a nearby home and killed a 33-year-old woman as she opened her front door.

While Horton was atypical of prisoners on furlough, Harvey was typical of prisoners on early release — like most offenders who serve only a fraction of their sentences behind bars, he did not "go straight" upon release. (Harvey, in fact, spent more time in prison than most murderers — eight and a half years compared with the national median of about six.)

While furlough programs are successful, the rate at which paroled prisoners are convicted of a new crime is discouraging. Echoing the results of most previous studies of recidivism, a 1987 study by the U.S. Bureau of Justice Statistics reported that almost 70 percent of young adults who had been paroled from prisons in 22 states were rearrested for serious crimes once or more within six years, 53 percent of all parolees were convicted of a serious new offense, and 49 percent were sent back to prison. Perhaps most disheartening of all, the study found that parolees initially imprisoned for a property crime were as likely as those incarcerated for a violent crime to be rearrested for a violent crime.

Many conservatives leap from such evidence to the general conclusion that more incarceration is the key to less crime, while less incarceration is the cause of more crime. For example, writing in a recent issue of *Policy Review*, Assistant Attorney General Richard B. Abell drew a simple, seductive graph to show that in 1960, when crime rates were low, a typical offender had a 6.2 percent chance of going to prison; by 1983, when crime rates had more than tripled, the chance of going to prison was only 3.5 percent. When the probabilities of imprisonment were lowest, crime rates were highest.

There is some good to be said for juxtaposing trends in this provocative way. But the more sophisticated the statistical analysis — the more it systematically relates a host of relevant variables to each other — the weaker and more ambiguous the incarceration-crime nexus becomes.

The difficulty of determining the actual relationship between crime rates and incarceration rates has long been recognized both by analysts, like myself, who have absolutely no qualms about locking up dangerous and chronic offenders and by leading researchers and criminology institutes whom most corrections cognoscenti would label "liberal" or "pro-alternatives." For example, a 1988 report by the National Council on Crime and Delinquency ranked the 50 states and the District of Columbia according to several measures of "punitiveness" — imprisonment rates, incarceration rates (prisons plus jails), and "total control" rates (prisons, jails, juvenile facilities, probation, and

parole) per 100,000 residential population. The report found such crazy-quilt variations both among and within jurisdictions that it concluded, as have many other studies, that the relationship between incarceration and crime is neither uniform nor simple.

That the incarceration-crime nexus is hard to demonstrate statistically does not rebut the commonsense view that it exists. Neither, for that matter, does it answer the moral argument (which, like most of the public, I support) that citizens who assault, rape, rob, kidnap, burglarize, deal deadly drugs, and murder ought to be punished swiftly, certainly, and proportionately: those who abuse liberty ought to be deprived of it.

Is Incarceration a Steal?

Recently, the historic debate over whether it is socially desirable to widen the "net of social control" has been waged indirectly by analysts of the monetary costs of corrections. Estimating those costs is difficult, but most analysts put the national bill for corrections in 1988 somewhere in the neighborhood of \$25 billion. That is a very expensive neighborhood, especially when a decade or so ago, only \$2.5 billion was spent on all correctional operations, construction, and services.

Virtually all of the money is appropriated at the state and local levels. According to the National Conference of State Legislatures, corrections spending nationwide in 1987 increased by 10 percent over the previous year, surpassing the rate of increase in spending for education for the second consecutive year. Half the states increased corrections spending by more than 10 percent; only 3 states cut it. Corrections spending grew faster than general fund spending in 36 states.

On average, it costs about \$20,000 a year to keep somebody behind bars; most of that goes to pay the officers, administrators, and other personnel needed to run a prison or jail. This figure makes even grizzled analysts like me wince. No sane taxpaying person can rejoice at the fact that so much money is spent keeping people in the custody of barbed wire bureaucracies, money that could be better spent on educating children in public schools, moving riders on public transit, and doing other things we value. Nevertheless, once the costs of incarceration are weighed carefully against its benefits, it is much harder to argue that money spent on incarceration is somehow money "wasted."

In a 1987 study published by the National Institute of Justice, economist Edwin Zedlewski estimated that one year's imprisonment cost \$25,000 an offender. Using various crime data, he estimated that the typical prisoner had committed 187 crimes a year and that the typical crime costs \$2,300 in property losses and/or physical injuries and suffering. Multiplying these two figures, he calculated that the typical prisoner was responsible for \$430,000 in total "social costs" a year. Thus, placing 1,000 typical felons behind bars costs society \$25 million a year; but *not* placing them behind bars costs society about \$430 million a year (187,000 felonies times \$2,300 per felony)!

Zedlewski's finding is rather incredible; I know of no other government activity that would yield such a high benefit-cost ratio. Some of the studies on which Zedlewski based his estimates were rather dated, and his computations used averages when other measures would have yielded a lower ratio.

In a 1988 article published in the journal *Crime and Delinquency*, Franklin E. Zimring and Gordon Hawkins charged that Zedlewski's methodology inflated his findings. They cited, for example, several studies suggesting that the typical offender commits fewer than 20, not 187, crimes a year. They did not, however, recalculate the incarceration benefit-cost ratio. In fact, though, if one were to recalculate, using the most reasonable low estimates of crimes per offender and costs per crime and the most reasonable high estimates of incarceration costs, one might still get a benefit-cost ratio above one.

More Overcrowding, More Violence?

Whatever the monetary benefit, the sheer human toll of incarceration cannot be denied and should never be forgotten. I have been through scores of prisons and jails, federal, state, and local. Even under the best of conditions, prisons and jails are not pleasant. They are lousy places to work, terrible places to live, (and, need I add, less comfortable as research sites than most university libraries). And overcrowded prisons and jails are downright miserable places.

But is it true that overcrowding is associated with an

increase in institutional violence, a disruption in work and educational programs, and other problems?

Common sense suggests that the answer to this question must be yes. Yet every meaningful study either has answered it in the negative or concluded that the impact of overcrowding on the quality of institutional life is ambiguous. For example, in my book *Governing Prisons*, I reported the results of a highly exploratory analysis of the state prison systems in Texas, Michigan, and California. This study indicated that overcrowding varied inversely with prison violence. Prisons and prison systems were most violent when they were *least* overcrowded.

Statistician Christopher A. Innes came to similar conclusions in a report for the U. S. Bureau of Justice Statistics. Analyzing the effects of overcrowding on more than 180,000 housing units at 694 state prisons, he found that the most overcrowded maximum-security prisons had a *lower* homicide rate than moderately crowded ones, and about the same rate as prisons that were *not* overcrowded. He concluded that there was little evidence that crowding levels were directly related to increased homicide rates, assault rates, or the incidence of major disorders, findings that have been echoed in half-a-dozen subsequent studies.

Unquestionably, however, overcrowding makes life harder for those who live and work in prisons and jails, just as the rise in community-based populations overtaxes probation and parole agents and hamstring meaningful efforts to supervise offenders and to assist them in finding jobs, counseling, and other things vital to a successful return to the community. An important question, therefore, concerns the duration of the problem. Will the increase in correctional populations continue, and, if so, for how long?

The answer, I fear, is that it will continue to the end of the century, and possibly longer. Two main factors have fueled the increase, and neither will abate anytime soon.

Sentencing trends are the first factor. Widespread outrage at "revolving door" practices that free convicted criminals before they have served their entire sentences has led to mandatory sentencing and related changes in penal codes. Many of these laws contain a strong presumption in favor of incarceration for even first-time and "petty" offenders. The result — and we are only now beginning to see the full effects — has been soaring numbers of people under correctional supervision for longer periods of time, both behind bars and in the community.

It is estimated, for example, that in conjunction with recent changes in federal sentencing guidelines, the sweeping "lock 'em up" provisions of the Anti-Drug Abuse Act of 1986 will double the federal prison population from its current level of about 50,000 inmates by the year 2000. In response, the federal Bureau of Prisons has already begun a dramatic prison construction program that, by the turn of the century, will double the number of federal facilities and cost billions of dollars. New facilities are coming on line pretty much on schedule every few months. Even so, the system's prisons remain overcrowded.

The second factor has to do with demography. Criminologists have long known that males between the ages of

"... the plight of 'the truly disadvantaged' is fostered and perpetuated by the behavior of 'the truly deviant' — career predatory street criminals who live in the midst of and prey upon these overwhelmingly law-abiding, aspiring, and poverty-stricken ghetto dwellers."



15 and 35 commit most crimes. As the baby boomers began to drift out of their most crime-prone years in the early 1980s, criminologists expected to see crime rates fall. The rate of decrease, however, has not been as great as anticipated. In addition, two countervailing demographic trends are likely to contribute to increases in the crime rate. One is the "echo boom" — the sons of baby boomers who have their crime "wonder years" ahead of them. The other is the fact that the baby boom never ended among citizens living in the most economically distressed big-city ghettos.

Victims and Victimizers

In his influential book *The Truly Disadvantaged*, William Julius Wilson sought to explain the sad lot of the residents of these "underclass" neighborhoods. He focused mainly on deindustrialization and related socioeconomic trends. It has become increasingly clear, however, that the plight of "the truly disadvantaged" is fostered and perpetuated by the behavior of "the truly deviant" — by the incredible concentrations of career predatory street criminals who live in the midst of and prey upon these overwhelmingly law-abiding, aspiring, and poverty-stricken ghetto dwellers. It is these citizens who are most directly affected by the bulge in correctional populations, and by how that bulge is being managed.

My Princeton colleague Mark Alan Hughes and I have

recently completed research that supports what most corrections analysts and officials have long suspected; namely, that the ghetto neighborhoods of the 1980s have extreme concentrations of crime and extreme concentrations of persons under correctional supervision.

Using census tract data, Hughes, a leading geographer and urban affairs expert, defined "impacted ghettos" as those neighborhoods with levels of deprivation (rates of male unemployment, welfare dependency, female-headed households, and school dropouts) that are twice the average of neighborhoods throughout the surrounding metropolitan areas. In *Poverty in Cities*, a widely circulated 1989 report of the National League of Cities, Hughes showed that between 1970 and 1980, the number of impacted ghettos in Philadelphia, Chicago, Baltimore, and other large metropolitan areas increased by 100 percent or more. As the ghettos became more concentrated geographically, the centers of economic opportunity moved farther away. Eventually, these impacted ghettos evolved into isolated, crime-torn chains of impoverished neighborhoods in which most crime was black-on-black and neighbor-on-neighbor.

Newark, New Jersey, illustrates this phenomenon. In a recent article in *The Public Interest*, I reported that in 1980, the rate of violent crimes (murders, nonnegligent manslaughters, robberies, and aggravated assaults) per 100,000 residential population was over 920; in the rest of the state it

was under 500. Towns like Princeton hardly experienced violent crime at all. In the same year, the state's prisons held 5,866 criminals, 2,697 of them from the Newark area. In Newark's impacted ghettos, at least 1 of every 200 residents was an imprisoned felon. An estimated 3 of every 100 residents were under some form of correctional supervision, most of them free on the very streets where they committed the crime, or, more likely, the crimes, for which they were last convicted.

The same basic picture holds for the impacted ghettos of other major cities. For example, in more than half of Chicago's impacted ghettos, 1 of every 200 residents was behind bars in 1980; in several of them, more than 1 of every 100 residents was imprisoned; and an estimated 6 percent of the residents of Chicago's impacted ghettos were under some form of correctional supervision.

This simple geography of urban crime and corrections helps to explain why blacks are victimized by crime at much higher rates than whites, and why criminals and their victims are usually the same race. Most violent crimes against blacks are committed by blacks; most crimes against whites are committed by whites. In 1986, for instance, 83.5 percent of lone-offender violent crimes against blacks were black-on-black, while 80.3 percent against whites were white-on-white. For multiple-offender (gang or "wolf-pack") crimes of violence, 79.6 percent were black-on-black, and 59.6 percent were white-on-white.

Similarly, in 1988, Washington, D.C., had 372 murders, 82 percent of them committed on the streets by black males against other black males in the city's impacted ghettos. While reliable data on victim-offender relationships is hard to come by (I am working with the D.C. police to enhance their routine store of such data), my guess is that the impacted ghettos of other major cities are also home to such unprecedented and extreme concentrations of crime, criminals, and correctional supervisees.

Big-city police departments have been doing their best to help bring peace and order to these impacted ghetto communities. So far, however, their best has not been nearly good enough.

If corrections systems compound the failure of the police by doing little or nothing to direct their supervisees into noncriminal pursuits; if prisons and jails are places where the only education young criminals receive is from each other, aggressive and antisocial behavior is the norm, and brazen drug dealers and violent punks are the only available role models; if street toughs likely to commit new crimes are released prematurely; if probation and parole agents provide virtually nothing in the way of meaningful supervision of these offenders once they are returned to their old neighborhoods; if community-based corrections programs involve no real and sustained effort to enhance the basic life skills and job prospects of those whom it would correct; then all of us must suffer, but citizens trapped in the nation's impacted ghettos must suffer most. For it is they who are most likely to be criminally victimized, or revictimized, by these convicted criminals; and it is they who must languish in poverty and joblessness in part

because local commerce is stalled, stunted, or stopped by the real and perceived costs of doing business in the midst of urban crime.

Guaranteed Failure . . .

Unfortunately, current correctional policies and practices are a recipe for failure.

The quality of life inside prisons, jails, and juvenile "lock-ups" can be defined along at least three dimensions: order, measured by rates of institutional violence such as assault and rape; amenity, measured by the incidence of good food, clean cells, recreational equipment, and other things that minimize the pains of incarceration; and service, measured by the availability of remedial reading, vocational training, and other programs intended to enhance the inmates' life prospects after release. On all three dimensions, the quality of life inside most of America's correctional facilities remains poor to wretched.

It has been said before, but it bears repeating: most prisons and jails are run in ways almost calculated to produce low levels of order, amenity, and service, and to reinforce inmates' uncivil, criminalistic behavior. For the most part, the nation's adult and juvenile inmates spend their days in idleness punctuated by meals, violence, and weightlifting. Meaningful educational, vocational, and counseling programs are rare. Strong inmates are permitted to pressure weaker prisoners for sex, drugs, and money. Gangs organized along racial and ethnic lines are often the real "sovereigns of the cellblocks."

Even in many maximum-security institutions, inmates are free to behave behind bars pretty much as they behaved on the streets. Aggressive horseplay is more common than serious study; opportunities for malicious mischief are easier to find than opportunities for productive work; and contraband, including drugs, is pervasive.

Meanwhile, probation and parole agents in many jurisdictions manage 200 to 300 cases apiece. "Community-based supervision" often amounts to a phone call once a month, and sometimes not even that much. With such heavy caseloads, even the most dedicated probation or parole agent cannot keep supervisees on a short leash, or assist them to find work and gain access to drug counseling and other things that may help them stay out of trouble and lead a good life.

Given that most of America's 3.5 million convicted criminals are ill-managed, undermanaged, or not managed at all — it is not surprising that so many correctional institutions are violent and recidivism rates run so high. Indeed, I am amazed that things are not worse both behind bars and on the streets.

. . . Or Promising Alternatives

This unsettling state of affairs is neither necessary nor inevitable. My own research and that of others show that different correctional policies and practices produce different outcomes. Though they are now the exceptions, three

alternative approaches to both institutional and community-based corrections have succeeded for less money than we are now spending to fail. There is no insurmountable reason why these approaches cannot be employed more widely.

House Arrest Plus

There are many different types of house arrest programs. What I call "house arrest plus" refers to community-based programs where the typical supervisee does not have several prior felony convictions; where he is required to stay in or around his home for all but court-approved activities, such as work; where he must meet curfews and other restrictions; where he is subject to electronic surveillance as well as regular face-to-face or telephone contact with supervisors; and where he is incarcerated swiftly and certainly for any violations.

House arrest programs of this type are no picnic for the offender, which may be good, and involve more investment up front than less well-structured programs, which is bad. Especially costly are the electronic monitoring devices themselves — ankle bracelets and other computerized "prison jewelry." New Mexico, for instance, spent nearly \$100,000 for its first two dozen bracelets. Moreover, the electronic systems have proven far from bug-proof. In several jurisdictions, officials have gone crazy responding to false alarms; in others, offenders have been found "out of bounds" though they were shown as being at home.

Largely because of the hefty costs and the technical problems, only about 10 percent of the 10,000 or so offenders under house arrest in 1988 were in these highly structured supervision programs. In early 1989, however, New York City and several other jurisdictions decided to join the 20 states where house arrest has been tried, and most of them seemed to be opting for house arrest plus.

They are wise to do so. Less restrictive house arrest programs simply do not work. Offenders ignore the terms of their release. They miss court appearances. They find it easy to return to their criminal lifestyles and associates, prey upon their old neighbors, and avoid contact with their supervisors, who may have no idea of their true whereabouts. Most judges are rightly wary of placing even "lightweight" offenders in loosely structured house arrest programs.

Thus far, the most extensive experiment with house arrest plus has been made in Florida. Between 1983, when it was started, and 1988 the Community Control program had 5,000 offenders, most of them petty criminals and misdemeanants, but many of them felons. Offenders wear shockproof, tamper-resistant electronic bracelets and pay a monthly fee to defray the costs of their supervision. The program keeps track of offenders through random, computer-generated phone calls as well as through face-to-face contacts with the offender and his relatives, friends, employers, neighbors, and social workers.

Florida officials estimate that 6 or 7 of every 10 house arrestees would have been sent to prison if the program did

not exist. On average, it costs nearly \$30 a day to keep somebody locked up in Florida's overcrowded prisons. It costs less than \$5 a day to keep somebody in its house arrest program. More than 80 percent of the offenders in the program have completed the program without incident.

Community Service Sentences

Another promising alternative to incarceration places offenders in the community under close supervision and requires them to perform a variety of socially useful tasks, to pay restitution to their victims, and to defray the costs of their supervision. A few dozen jurisdictions have tried various types of community service sentences. But the most extensive, and the only well-studied, community service program was administered by the nonprofit Vera Institute of Justice in New York City. Douglas C. McDonald, formerly with the institute and now a member of Abt Associates, described and evaluated this program in his superb book, *Punishment Without Walls*.

The program began in 1979. By the end of 1983, some 2,400 offenders, convicted mainly of nonviolent property crimes, were in the program. Most of these offenders would have been sentenced to jail if the program had not existed. Each offender performed at least 70 hours of community service — cleaning nursing homes, painting buildings, cleaning vacant lots, and the like. The offenders worked in small groups supervised directly by a Vera Institute staff member. Staff members also assisted offenders with housing, transportation, day care, and other needs.

The results of the program were mixed. For example, of 494 program participants tracked for six months after sentencing, 212 of them were rearrested 310 times. McDonald estimated that a third of these rearrests were for crimes committed when, had the program not existed, the offender would have been in jail. He found no meaningful difference in the recidivism rates of program participants and comparable offenders who had been incarcerated. And, he found that most participants declined to describe the program as a punishment; indeed, they felt that it was much less punitive and far more desirable than either jail or conventional probation.

On the bright side, however, the cost of administering the program was \$920 per year per offender, a far cry from the \$40,000 a year it costs to jail someone on Rikers Island. McDonald estimated that the project saved nearly 260 jail-years overall. Moreover, while he did not make explicit comparisons to conventional probation programs, few observers would doubt that the community service sentences were a better bargain for the city, and more of a boon to public protection, than the unsupervised, unstructured, and socially unproductive alternatives.

Intensive Supervision Programs

Probably the single most promising alternatives to incarceration are intensive supervision probation and parole programs (ISPs). Unlike conventional programs, which are

largely unstructured, ISPs coordinate the offender's every move to see that he is behaving in accordance with the terms of his community-based status.

ISPs subject offenders to mandatory work, community service, and educational activities as well as to random drug and alcohol tests. Participants live in program centers that have no guns or iron bars but that do have strict rules governing chores, curfews, and interactions with other offenders and program staff (or, where there is no center, regular face-to-face contacts with program officers). Their arrest records are checked weekly. They must make payments to victims and payments to offset the costs of supervision. Any violation results in immediate incarceration.

Some 20 jurisdictions have experimented with ISPs. Two are particularly notable. The Georgia program for probationers began in 1982. Among other things, offenders were required to work, to have five face-to-face contacts with officers each week (reduced to two as they progressed through the program), and to have frequent drug and alcohol tests. Two officers supervised each group of 25 offenders. By the end of 1985, over 2,300 offenders who otherwise would have gone to prison were in the program; a small number of participants were parolees.

In a study of offenders 18 months after they left the program, Billie S. Erwin, a program analyst with the Georgia Department of Corrections, found that the recidivism rate for ISP offenders was about 25 percent compared with more than 40 percent for the state's prisoners. Moreover, the supervision program proved far more cost-effective than prison. The cost of a Georgia prison bed has run about \$14,000 a year. By contrast, through taxes on their wages, room and board fees, and child support payments, ISP offenders typically have covered more than 90 percent of the costs of their supervision (about \$6,000 a year for each offender); the program has saved taxpayers an estimated \$145 million over the last several years.

New Jersey's program has been directed at parolees. Frank S. Pearson of Rutgers University found that the state saved about \$7,000 a year for each parolee, compared with the cost of continued incarceration. The participants also performed community service work worth about \$200,000 and made good on some \$225,000 in fines and restitution. Recidivism rates for program participants were about 10 percent lower than for otherwise comparable offenders who did not participate in the program.

Despite the success of these highly structured programs, the number of offenders in them remains very small indeed; only half a percent of New Jersey's corrections population participated in the intensive supervision program in 1988. Moreover, none of these programs has yet been studied in the most scientific fashion possible (i.e., using random assignment and concomitant controls).

Nevertheless, political enthusiasm has started to build around these "no-nonsense" alternatives. In particular, ISPs are perceived as a viable "intermediate sanction" that satisfies the practical and moral demands of both liberals and conservatives. Conservatives tend to like the programs because they save money and give criminals more than a

mere slap on the wrist; liberals tend to like them because they represent a viable alternative to incarceration that protects the community better than conventional approaches.

While I would do nothing to scotch this budding enthusiasm, I would caution that these highly structured alternative programs probably cannot be expanded rapidly without undermining their effectiveness. For one thing, they are not easy to staff and administer. For another, they could easily become the victims of their success if officials were to become less careful about keeping "heavies" behind bars and were to use the programs as a "not-too-risky" short-term way to free up beds, reduce institutional overcrowding, and trim costs.

Above all, it should be understood that any political consensus surrounding these programs will remain fragile. A similar consensus on state work-based welfare reform measures that emerged in the 1980s might or might not be weakened by the fact that these programs are performing less well than was anticipated. Politically, however, a program that fails to get x percent of poor citizens off the welfare rolls by a given time is one thing, and a program that fails to keep even one convicted criminal under correctional supervision from harming even one innocent citizen is quite another. The most well-administered ISPs will have their Hortons and their Harveys. That these programs may be more successful overall than incarceration will rarely be enough to buoy them in the wake of the resulting negative publicity, public outrage, and political pressures.

For these and related reasons, including the hard fact that many offenders are dangerous and simply cannot be trusted on the streets, we must make increased use of such promising alternative measures *and* a wider and saner use of incarceration.

Improving Prison Administration

Just as there are better ways to handle convicted criminals on the streets, so there are better ways to handle them behind bars. The quality of institutional life is mainly a function of the quality of institutional policies and practices. Let me cite three examples of good institutional management.

Example One. The California Men's Colony (CMC) is a maximum-security prison in San Luis Obispo. When I first visited the prison in the mid-1980s, it was overcrowded, operating at 120 percent of its rated capacity. More than 80 percent of its 2,000 inmates were violent offenders, and virtually all of them were repeat offenders. About 25 percent were incorrigible felons who, according to their official security classification, should have been housed in San Quentin or Folsom, the state's two highest-security prisons, but these facilities were overflowing too.

During a follow-up investigation on CMC in early 1989, I discovered that its population had increased dramatically. Indeed, for the last several years CMC has held over 6,500 prisoners, making it one of the most heavily populated, and

overcrowded, prisons in the free world. And its share of hard-core and hard-to-handle offenders had increased as well.

Despite the acute overcrowding, however, CMC remained what it had been for years: the safest, cleanest, most program-oriented, and most cost-effective maximum-security prison in California, and one of the best prisons in the nation. Rates of inmate-on-inmate assaults remained low, as did rates of inmate assaults on staff. Rates of violence actually decreased as the prison became more crowded. Meanwhile, the cellblocks continued to sparkle and the prison industry programs continued to hum. Inmate participation in all sorts of educational and vocational programs grew, recreational facilities were expanded and improved, and the already far above-average institutional meals were diversified and enriched.

All of that was achieved while CMC had the highest inmate-to-staff ratio and the lowest annual expenditures per inmate of any maximum-security prison in California. Levels of order, amenity, and service at CMC were higher than at better staffed and less crowded California prisons like Soledad where more money per prisoner was spent.

Example Two. In 1974 New York City closed the Manhattan Tombs jail, a filthy, riot-torn, dilapidated facility. Conditions

in the Tombs would have made life in a medieval dungeon look good. Under federal court orders, the city built a new Tombs jail in Manhattan. Over the last five years, rates of disorder at the new Tombs have been extremely low; months have passed without a serious assault. Good remedial reading and other programs are offered, and basic amenities have been in ample supply.

It is not merely the new jail architecture that accounts for these improvements. The new Tombs features "unit management," an approach to correctional administration in which uniformed security staff and counselors work as a team in a given cellblock or wing of the jail. Under the direction of a unit manager, a sort of "mini-warden," the team is responsible for managing everything from counting, locking, frisking, and cell-searching, to monitoring inmates' disciplinary records, keeping track of program activities and release dates, and maintaining sanitation.

Despite the success of unit management at the Tombs, most observers doubted that it could be made to work at the city's jails on Rikers Island. But after lots of debate within the department, and lots of political wrangling outside of it, unit management was tried there on a limited basis. Even I was surprised by the results: a 28 percent decline in the rate of violent infractions over an eight-month period compared with the same period the previous year; even greater reductions in the rates of assault and stabbings; better inmate-staff relations, reflected in a nearly 50 percent reduction in the use of force; and a marked improvement in officer morale, reflected in a reduction in absence rates and transfer requests.

Example Three. The federal Bureau of Prisons established unit management in most of its facilities in the early 1970s. In conjunction with a book I am completing on the agency's political and administrative history from 1930 to 1988, I have visited bureau facilities around the country. Though by no means perfect, the bureau's reputation as one of the best correctional systems in the country, and the world, is well-deserved. Overall, levels of order, amenity, and service in its prisons are higher than in any other major prison system in America.

There are two popular explanations for the agency's success relative to most state and local systems, neither of them supported by the facts. One is the "Club Fed" explanation. The federal prison system, it is said, simply gets "a better class of criminals." Historically, however, the agency has never handled only white-collar offenders; in mid-1988, for example, 46 percent of its 50,000 prisoners had a history of violence; and each year the states transfer many of their "too-hard-to-handle" cases to the federal system.

The second explanation is that the federal system outspends most state and local systems. In truth, the Bureau of Prisons spends almost exactly the same as the national median spent per prisoner per year and has, so far as raw statistics permit one to tell, for most of the last 50 years. Moreover, the agency has higher inmate-to-staff ratios than any major prison system in the country.

In each of these examples, and in the dozen or so others

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that I could add to them, the keys to safe, civilized, cost-effective institutions are enlightened management policies and practices. The CMC, the new Tombs, and the Bureau of Prisons all use some form of unit management. But the administrative similarities among these and other successful institutions go much deeper. In essence, successful institutions are marked by five basic organizational characteristics: stable, hands-on leadership in headquarters and "in the field"; a strong organizational culture, high morale, and sense of mission developed around a custodial or security-first ethic that places a premium on enforcement of the rules governing inmate behavior but that is not inimical to inmate counseling and related activities; excellent line staff training, labor-management relations, and inmate-staff communications; a results-oriented approach that brooks no excuses about security breakdowns, poor sanitation, and other performance problems; and an openness to outsiders — journalists, legislators, judges, extradepartmental researchers — with the capacity to influence the institution's fiscal health, operating procedures, and public image.

To be sure, behind most institutional success stories is at least one superb administrator. CMC's Warden Wayne Estelle is a lifelong "prisons man," descended from the first warden of San Quentin and known to many of his peers as "the best warden west of the Rockies." For nearly three decades, the Bureau of Prisons was led by James V. Bennett (1937–64), an extremely intelligent and politically savvy penal reformer who dedicated his life to making the system safe and humane. Bennett's longest-reigning successor, "Big" Norm Carlson (1970–87), was in his own way even more politically savvy and administratively talented than Bennett.

Yet there is every reason to suppose that unit management and related administrative approaches can work well even where they are not put in place or sustained by managers with unique talents and extraordinary gifts. Indeed, in many jurisdictions, including New York City, that has been the case. Fortunately, the possibility of good institutional management, and improved prisons and jails, is not contingent upon "great men."

Corrections: A National Problem

Historically, correctional policies and practices have reflected the virtues and vices of federalism American-style. Those policies and practices have been nothing if not diverse. Over time, however, regional variations in Americans' views of what constitutes just punishment have become less pronounced, converging around Judeo-Christian ideas of "revenge tempered by forgiveness." Progress in the care and custody of convicted criminals has occurred, albeit very slowly, as knowledge of "what works" has spread unevenly from jurisdiction to jurisdiction. With varying degrees of success, national organizations like the American Corrections Association have attempted to codify, deepen, and disseminate that knowledge through institutional accreditation standards and in other ways.

In recent years, the National Governors Association has been paying more and more attention to corrections; so have conferences of mayors. But the involvement of national policymakers has remained shallow. Corrections now accounts for a larger share of many state budgets than public assistance. Yet welfare reform is treated as a major national domestic public policy issue while penal reform is not. "Domestic defense" (federal law enforcement plus corrections) still accounts for a negligible fraction of the national budget.

While the Department of Justice has been receptive to weakly reasoned ideas about "privatizing" the nation's prisons and jails, no serious attention has been paid to the more pragmatic possibility of an enhanced federal involvement in the processes by which the nation's correctional policies are made and implemented. I believe that it is time to step up the federal role. In my judgment, two unpleasant facts justify increased federal involvement.

First, like it or not, over the next 10 to 15 years, hundreds of new prisons and jails will need to be built, staffed, administered, and financed. Tens of thousands more convicted criminals will have to be supervised in the community. Second, if they are to have any real hope of succeeding, our responses to the problems of underclass neighborhoods, drug abuse, and drug-related violence cannot be police responses made almost entirely at the state and local levels. At a minimum, the government must develop nationally coordinated, intergovernmental responses that integrate courts, cops, and corrections.

As a small first step in that direction, I recommend a major federal commitment to, and a broadened mandate for, the National Academy of Corrections. The academy is a creature of the National Institute of Corrections, itself a research arm of the Bureau of Prisons with a tiny budget. The academy should be expanded to serve as a national anchor of corrections research and training that regularly brings together federal, state, and local policymakers and practitioners to share information, promote promising strategies, and educate the wider public.

This proposal is not terribly sexy or immediately far-reaching. But it is a valuable incremental move that can be made well within the budgetary and political constraints of current national policymaking. In politics and policymaking, symbols matter. If nothing else, the proposed academy would symbolize the nation's long overdue recognition of corrections as a vital area of public concern and give those who work in this most demanding and thankless area of public service a greater sense of public support.

About 10 years ago, when I began my work in the field, an old Massachusetts corrections officer, months from retirement, gave me some depressing advice. "I don't care what research gets done, or what judges or politicians or activists say, or who else is going to get involved," he warned. "Corrections will always be sensationalized, politicized, emotionalized, but most of all forgotten except when riots occur. . . . Don't waste your time on this business." I retain a faint hope that the 1990s may prove my old corrections officer friend wrong.

Proposed: A Comprehensive Health Care System for the Poor

Louise B. Russell

The plight of the poor is the most urgent problem facing the medical care system of the United States. In a country that spends 11 percent of its gross national product on medical care, more than any other industrialized nation, 35 million people, many of them poor, have no health coverage. Fewer than half the poor are covered by Medicaid, the federal-state program established to help them. Even more distressing, many of those not covered are children. The time has come to solve this problem, to provide a decent level of medical care for those who cannot provide for themselves.

What I propose is a unified, uniform, comprehensive program that would provide health care directly to the poor. Everyone with a family income below the federal poverty line would be entitled to care through this system. The eligibility criteria would be the same for everyone, everywhere in the country, and everyone would be entitled

to the same benefits. All providers would be identified by the same name and logo throughout the country. The system would supply comprehensive medical services, including doctors' services, hospital care, and prescription drugs.

The proposed program would be a joint federal-state system, with the framework established by federal legislation, administration carried out by the states, and financing provided by both. Care would be given in existing government hospitals and clinics — federal, state, and local — or in hospitals and clinics under contract to government. The program would unify the structure that already serves the poor, rather than adding another piece to the current patchwork system. Financing would proceed in the same way, first combining the resources already being used for the poor, and then adding as necessary. My estimates indicate that \$6 billion to \$9 billion in new money would be needed. A tax on hospital revenues is proposed as the major source of new funds.

The system would end the categorical approach to providing medical services to the poor and would offer instead a true safety net to all citizens who are or become poor. That would be accomplished by accepting, even institutionalizing, a "two-class" system of care. It can be argued, and I will argue, that a separate system can serve the needs of the poor better than one designed to cover the whole population. But the ultimate aim would be to make the "second" class a good one, and dependable — so good and so dependable that many in the "first" class would want to join.

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A Case of Arrested Development

Although it started out in that direction, Medicaid has not developed into a program that covers all the poor. Eligibility for Medicaid is based on the same complex set of categories used for welfare benefits, categories that pick up large parts, but not all, of the poor in three groups: the elderly, the disabled, and children and their mothers. The remainder of the poor are covered, when they are covered at all, by a patchwork of programs — state and local assistance, federal community health centers, the Veterans Administration, the Indian Health Service, and other programs. Many of the rest receive "uncompensated" or charity care.

Even in the categories that are covered, Medicaid does not cover all of the poor because the states are free to set income limits for eligibility below the federal poverty line. As of December 1986, 32 states set limits for families of three (one adult and two children) that were 50 percent or less of the federal poverty line (\$9,120 in 1986). Primarily because income limits vary widely among the states, the proportion of the poor covered by Medicaid also varies enormously, ranging in 1983 from a low of 21 percent in the Mountain states to a high of 55 percent in the mid-Atlantic region.

Medicaid benefits also differ from state to state. Some states cap the number of hospital days or physicians' visits a recipient can use in a year — in a few cases, at numbers so low that they do not cover even a fairly routine acute illness. In many more states low payment rates seriously limit patients' access to care. Scott Crawford, an analyst in the New Jersey Department of Health, observes that in most states, "Medicaid payment to nonhospital providers, especially physicians, is so low that Medicaid patients generally can only secure primary care in hospital outpatient settings."

At its best, in the mid-1970s, Medicaid covered about two-thirds of the poor. In recent years coverage has declined because of budget cuts; currently fewer than half the poor are covered. This decline has occurred at the same time that the proportion of the population that is poor has grown, rising from 11–12 percent in the mid-1970s to more than 15 percent in 1983 and falling somewhat since then, to just under 14 percent in 1986. Worst of all, the percentage of children living in poverty is higher than the population average — 20 percent of all children lived in poor families in 1985. Younger children are more likely to be poor than older ones; almost one in four preschoolers lived in a poor family. Yet only half of all poor children are covered by the Medicaid program.

One of the principal goals that many of Medicaid's supporters shared was a desire to bring the poor into the mainstream of medical care. While the program has unquestionably improved the care of many poor people, it has failed in this larger goal, partly for reasons beyond its control and partly because of its own deficiencies. At the same time Medicaid has been predicated to a large extent on the assumption that the poor have no needs that mainstream medical care cannot handle.

But the poor do have special needs, needs that arise from their special circumstances, and any program that would serve them well must take these into account. Because of their poverty, the poor must deal with bad housing, stress, and, often, poor nutrition. The neighborhoods in which they live suffer from higher rates of crime, against both people and property, than do middle-class areas. Drugs and alcohol are often serious problems, even for the family that abstains, because of the social conditions created when drug traffic and drug use occur openly and are widespread in the community. For all these reasons, "the lives of the poor are characterized by more disruption and daily struggle as well as more simple physical hardships," Diana Dutton and Sol Levine wrote in a paper presented at a conference on socioeconomic status and health.

These conditions contribute to the higher rates of death and disease that afflict the poor. It has been documented repeatedly that both poor children and poor adults have higher mortality rates than the average, in the United States and elsewhere. The differentials are so consistent across causes of death and across countries, say Dutton and Levine, that they have "led some analysts to suggest that a more general process of breakdown and vulnerability may be at work that transcends" specific diseases. While the same illnesses that strike the middle class strike the poor more often and under more difficult circumstances, some of the health problems of the poor are unusual in the rest of the population. Lead poisoning among children who ingest old, peeling, lead-based paint in poor housing is a good example.

A system that would care for the poor should address these special needs and the particularly difficult circumstances in which medical help must be given and received. It must also recognize that the poor are a heterogeneous population made up of a variety of groups, each with its own special needs. These include poor children and their parents (working and nonworking), people with AIDS who have been impoverished by their disease, the chronically disabled who are poor because they cannot work, elderly people impoverished by the cost of long-term care, and the homeless.

The Proposed System in Detail

To provide for these special needs and different populations, I propose the creation of a single unified system of direct health care for the poor fashioned from many of the pieces that now serve them. The key word here is *unified*. Writing on a similar theme in the *New England Journal of Medicine*, Fitzhugh Mullan emphasized the same point: "Whatever is done should unify rather than fragment the system of care for the poor."

Three major groups of institutions now serve the poor: public hospitals and their outpatient clinics; the offices and clinics of state and local public health departments; and federally supported programs of primary care, among which are community health centers, migrant health centers, and National Health Service Corps sites. These

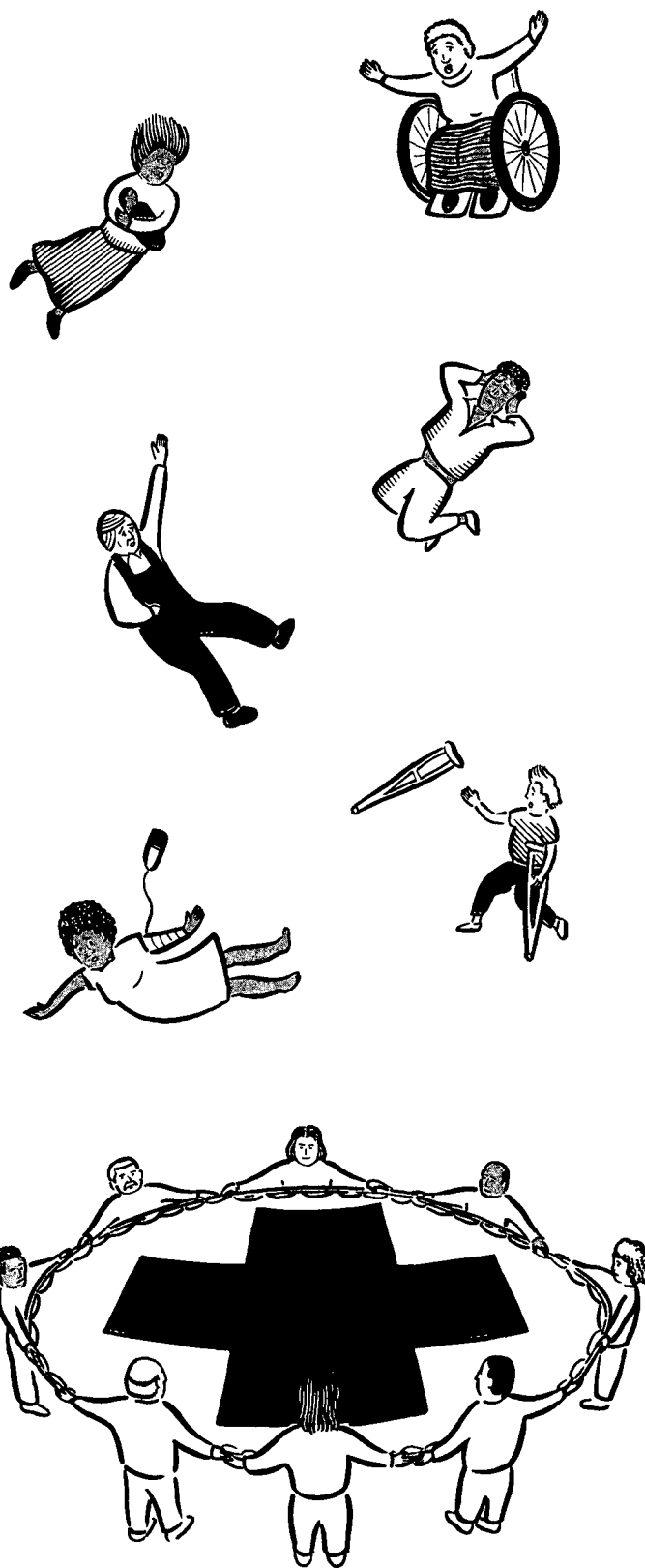


Illustration by Robert Wisner

institutions receive financing from Medicaid, the federal maternal and child health program, various federal health block grants, state and local funds, and various funds that pay for charity and uncompensated care. Together they comprise a substantial network of resources where the poor now go for care, backed by substantial funds.

Unifying these many elements is important for several reasons, but the one foremost in my mind is that any poor person should know where to go to get medical care. Not where to go to be considered for eligibility, but where to go to get care. Even better, anyone, poor or not, should know where to direct a poor person who needs care. This aim can best be met if a single system operates under a single name throughout the country. Then anyone anywhere need only ask for the nearest hospital or clinic of, say, Publicare.

Eligibility should be as simple as possible, even at the risk of letting in a few people who might not be poor. If the program is to serve as a true safety net, it cannot be too eager to disqualify people. After all, another very important aim of this proposal is to make the system for the poor so good that many of the nonpoor will want to use it. When the large numbers of nonpoor showing up for services become a problem, the system will have succeeded.

An individual or family should be eligible to receive services for at least one year. The one-year minimum serves both the patient, who needs continuity of care, and the provider, who needs continuity of patients and funds. The arrival at a Publicare institution of anyone in need of care could initiate the determination of eligibility. The care would be given first and eligibility for further care determined afterwards. The primary requirement would be that the individual's or family's income be below the federal poverty line. There might be other requirements, having to do with assets, for example, but they should be kept simple, and in no case should the eligibility process be allowed to interrupt the patient's care. If the patient is later found to be ineligible, then the family could be billed for the care received, perhaps on a sliding scale related to income.

The system would provide comprehensive medical services including doctors' services, hospital care, other medical services, and prescription drugs. The full list of services would look like that of a good health maintenance organization (HMO). Comprehensive outpatient centers and clinics would serve as the point of entry for these services. The program would encourage providers who are not already organized in centers to reorganize, where it makes sense to do so, in order to provide a comprehensive service. To promote continuity of care, patients would be encouraged to use, or be assigned to, one center, and the center would assign each patient or family (or let them choose) a primary care physician. If the center desired, the physician could serve as a formal case manager.

Not all of the poor can be served, or served well, in such centralized settings. In those areas where the poor are too few and too scattered, the program would most probably contract with individual providers. Those providers would not become as expert in caring for the poor. They could, however, call on the larger network of institutions for

special care and expertise, and would be identified by the same name and logo as other providers in the system. In still other cases, the poor cannot be counted on to come to a center. The homeless, for example, may need special outreach teams that work directly in shelters or on the streets. These teams can benefit from being affiliated with and working out of a comprehensive care organization that provides them with an array of backup services.

Payment to providers would be based on prospective methods. An all-inclusive per capita rate would cover outpatient care. Clinics and centers that primarily treat poor people would then operate with budgets based on the number of people assigned to them, much as HMOs or British doctors do. The same method of payment would also work in those areas where there are too few people to support a clinic or center — local practitioners could be paid the per capita amount for each poor person on their "list." Some individual practitioners are already paid this way under Medicaid's case management demonstrations.

The method for calculating payment rates should be kept as simple as possible. Medicaid's experience in Wisconsin indicates that this is possible and that it need not treat either the payer or the provider unfairly. There, HMOs that enroll poor families on Medicaid are paid a flat per person rate, negotiated separately for each HMO. Although the enrolled population has changed since the demonstration began — toward younger people and fewer women of child-bearing age — the program administrators' calculations indicated that it was not worthwhile to try to adjust the rates for these changes. The point here as elsewhere is to minimize the effort that goes into administering eligibility and payment, and to focus instead on providing good care.

Prospective methods would also be used to pay hospitals. The most likely payment method would be an adaptation of the Medicare prospective payment system, where hospitals are paid at rates set for groups of patients with similar medical conditions, known as DRGs or diagnosis-related groups. A hospital that treats a large number of poor people could opt for an annual budget based on the projected number of cases and the DRG payments for those cases. At the same time, DRGs make it easy to contract with institutions that treat only a few poor patients.

The system should be designed to serve communities, and both providers and patients should be made to feel part of a common enterprise. The community should be involved in quality assurance, in fund-raising, and in decisions to make major changes, such as new construction or closing or relocating a clinic. Members of the community would serve on providers' boards and on committees to oversee quality, patient grievances, and the like.

Federal legislation would be needed to create a single, unified system from the current fragments. The legislation would set out the framework — eligibility criteria, minimum benefits to be provided, institutions to be brought together under the system, federal financing to be combined and provided, state matching funds, and incentives to induce the states to participate. The states would

"It is frequently argued that a system designed to serve the poor will be a poor system, institutionalizing the notion of two classes of care. The other side of the argument is that a system devoted to the poor . . . can do a better job than one that pretends the poor are no different from the middle class."

administer the system, many of whose components are already under state control. This federal-state partnership builds on the current organization of Medicaid and also resembles Canada's federal-provincial system of national health insurance.

A few pieces may not fit into a unified program. In particular, long-term care for the elderly probably makes more sense as part of the Medicare program than as part of a program for the poor. In addition, the Veterans Administration, and probably the Indian Health Service, would continue to operate as separate systems, although individual institutions in those systems might serve as contractors to Publicare.

Advantages for Patients and Providers

A unified system, designed to serve the poor, would have many advantages for the patient. A significant one is that the patient would know where to go to get help and could be sure of getting it when he or she arrived. Such a system would overcome a major failing of the existing patchwork of care. As Mullan describes it, there currently is "no one-stop shopping for the poor. More often than not, a mother seeking an immunization for her child ('well-child care') is required to visit another clinic for treatment if the infant happens to have an ear infection ('sick-child care'). The converse is also true, with primary care patients being dispatched to public health clinics for immunizations because immunizations are 'free' in that setting. From the patient's perspective, the distinction between preventive services and personal services is surely elusive, and the number of visits and the number of different locations to which a person must travel to obtain care loom as barriers to care."

A single system would permit, and should be used to encourage, greater continuity of care. As suggested earlier, patients should be encouraged to use a single center and

should have a primary care physician or case manager at that center to whom they can turn for guidance. Medicaid's demonstration projects suggest that traditional providers to the poor, not always committed to continuity of care, can change their ways under the incentives of case management and prepayment, although they are understandably reluctant to do so without assurances that they can count on staying in the business for the long term. The uncertainty arises from the requirement that one-quarter of their enrollment be neither Medicare nor Medicaid patients, a requirement that is difficult for them to meet and that would be dropped in the proposed system.

It is frequently argued that a system designed to serve the poor will be a poor system, institutionalizing the notion of two classes of care. The other side of the argument is that a system devoted to the poor and their special problems can do a better job than one that pretends the poor are no different from the middle class. Advocates for poor patients have voiced concern over Medicaid's case management experiments on exactly this ground. They fear that providers who care mostly for middle-class patients are not equipped to deal with the special needs of either the "healthy poor" — children and pregnant women — or those with chronic physical or mental conditions.

Specializing in the care of the poor would allow providers to develop an expertise unavailable elsewhere: prenatal care for poor women, lead poisoning among children, immunization outreach in a population that may not bring their children in with the dependability of middle-class parents, special programs to help deal with drug problems, and so on. Where the poor are geographically concentrated, as they often are, specializing in their care is a logical extension of the idea that providers should serve communities or "catchment areas" — the epidemiological approach to medical care. Many institutions already specialize in the care of the poor to some degree, and the proposed system would build on their strengths.

Numerous examples demonstrate that specialized providers can do a better job for the poor, and often do. Federal community health centers have received high marks for their imaginative approaches. One clinic, for example, sponsored a garden club to help improve nutrition and supplied window and door screens to patients to help in mosquito control. Teams that care for the homeless in shelters learn to look for and control problems that do not often appear in middle-class practices. Historically, many of the nation's teaching hospitals provided care for the poor that, judging from contemporary reports, was probably better than care received by the middle class. These institutions still receive fond tributes from those who work in them and those who go to them for care.

Specializing in the care of the poor has advantages for

providers as well. They too gain from the opportunity to become more competent at handling problems common among the poor. With the resources available for the poor concentrated in a single system, providers should be better able to identify and call on other services they need. Hospitals can refer patients they have treated to the appropriate primary care clinics. Those clinics will have more direct links to hospitals, drug rehabilitation units, and other specialized services. Indeed, the organization of providers in a single system should stress improving and formalizing the links between the different institutions. A single, unified system can also do more to promote safety in health care institutions in high-crime areas and to develop the collegiality that helps make service enjoyable as well as worthwhile, both of which should help in attracting staff.

Funding Estimates for a Plan Covering All of the Poor, 1985

Funds Needed

Approximately \$55 billion would be needed to fund a comprehensive health care program for all of the poor. This number is calculated by multiplying the per capita medical expenditure (\$1,721) times the number of poor people (31.9 million). (The data are for 1985, the most recent year for which sufficient detail is available.)

The per capita spending figure is understated because the poor need more medical care than the average person and because too little money is now spent on them. These factors are offset, at least in part, because the spending figure includes funds for research and construction as well as for medical services and because it includes spending on the elderly, who require more care than younger people but who are less likely to be poor.

Funds Available

Health care programs that currently serve the poor, in whole or in part, and their expenditures for 1985, include Medicaid (\$41.8 billion), public health (\$11.9 billion), state and local hospitals (\$7.3 billion), other public programs for personal care (\$4.7 billion), and other state and local health assistance (\$1.9 billion).

Not all of this \$67.6 billion is spent on the poor. About \$14.7 billion under Medicaid is spent on nursing home care, mostly for the elderly. I have roughly estimated that all state and local assistance is spent on the poor but that only a third of the other spending is. That means that roughly \$37 billion was spent on medical care for the poor in 1985, \$18 billion less than needed.

However, part of that gap is already being filled by Medicare, which pays for some of the care of the poor elderly.

If the poor elderly receive Medicare payments in proportion to their share of the elderly population, then Medicare spent \$9 billion on behalf of the poor elderly in 1985, leaving a total shortfall of \$9 billion.

The table, shown below, summarizes the data. Similar estimates were made for a program covering only the poor who are not elderly. New funding of \$6 billion would be needed for this population. Details on both calculations are available from the author.

	\$1,721	Per capita medical spending
x	31,882,000	Number of poor
	\$55.0 billion	Funds needed
minus		
	\$67.6 billion	Health programs that serve the poor
-	\$30.6 billion	Amounts not spent on the poor
	\$37.0 billion	
+	\$ 9.0 billion	Medicare payments for the poor
	\$46.0 billion	Funds available
equals		
	\$ 9.0 billion	Additional funds needed

Assuring Quality

In any system, and particularly one for a population with so many health and health-related problems, the things that need to be done will always exceed the time and money available to do them. It is important to be able to identify problems and direct resources to the most pressing needs, to be able to decide what should be done now and what must wait. A unified system, drawing on all the resources available for the care of the poor, starts with an advantage in priority-setting simply because of its unity: It is responsible for all the problems and has at its command all the available resources. And in the current climate, with the middle class subject to pressures to cut down and cut out, it may no longer seem so unfair to suggest that the system for the poor will also need to set priorities and to limit some services. No system can do everything.

Prospective payment will help in the priority-setting process. The methods used would give general guidelines about the levels of resources available but leave the details of the decisions to the providers, where they belong. In fact, providers should be allowed discretion to tackle a health problem at its nonmedical source — unsafe housing, impure water or lead paint, for example — when they believe that is the best approach. Administrative oversight should be focused on providing care and on assuring the quality of care rather than on the intricacies of payment.

Procedures to review and improve the quality of care should receive top priority in the proposed system. I say this as much from a belief that quality has been taken for granted too long as from any fear that the system would be subject to abuses. Money permits quality, but it does not guarantee it. It can even promote poor quality in some respects — witness the concern that too much surgery may be performed.

Quality assurance should begin by involving the community and the patients themselves. The committees that determine what routine reviews to set up and what special problems to investigate and how to investigate them should include representatives from the patient community. The experiences of Medicare's peer review organizations and the Medicaid case management demonstrations provide many examples of the kinds of activities that might be undertaken. These include monitoring the responsiveness of the primary care provider, auditing medical records, developing clinical management protocols, and undertaking small-scale outcome and sentinel event studies. (A sentinel event is one that, if absent, is a clear sign that care was not of acceptable quality.) Some of these activities should be federally mandated to allow quality to be compared across providers and nationwide.

Financing: It Can Be Done

Financing for the program would come from all levels of government — federal, state, and local. The first and primary source of money would, of course, be the existing programs that are combined to create the new system.

These include Medicaid monies, maternal and child health funds, several federal public health grants, community health center funds, state funds now spent on care for the poor, and state and local subsidies given to public hospitals for uncompensated care.

How much additional money would be needed? I have made some rough estimates to set the discussion of additional financing in context. My estimates indicate that if the proposed system had been in place in 1985, an additional \$9 billion would have been required that year, over and above the funds already being spent, to finance comprehensive benefits for all the poor (*see box*). If the program were limited to people under 65, \$6 billion in additional funds would have been needed.

These amounts are surprisingly small in my view. They are certainly in the realm of the possible. Instead of the insurmountable obstacle it is usually assumed to be, financing may actually be the least of the problems of creating a decent program for the poor.

Where might the additional funds come from? First, with existing programs combined, and the separate bureaucracies and requirements for them gradually dismantled, the money already being spent on the poor should go a bit further. This point has been tarnished by its association with the reduction of federal funds for health programs that were transformed into block grants in the early 1980s, but it is nonetheless a valid point. Combining programs will not free up huge amounts of money, but it should free up some.

General federal revenues are not likely to produce much new money. Even a sharp cut in federal spending would only reduce the deficit to more reasonable levels, not free money for other uses. But Congress's willingness to expand Medicaid to pregnant women and young children shows that small amounts of new money are possible; some has already been approved as part of recent budget legislation bringing these groups more completely under Medicaid.

The most likely source of substantial new funds seems to me to be the kind of taxes on hospital care that are already in place in Florida and New Jersey. Both states tax hospital revenues and use the money to finance uncompensated care. Similar taxes could be mandated by the federal legislation setting up the proposed system. Something like the New Jersey system might work on a national scale. In New Jersey, hospitals add a fixed percentage to every bill, keep what they need to pay for the uncompensated care they provide, and turn the rest over to the state to be redistributed to hospitals whose collections fall short of their unpaid bills. Similarly, a fixed percentage could be added to every hospital bill in the United States and collected by the states. The tax would be paid by whoever pays the hospital bill, usually private insurers, Medicare, or other third-party payers. Each state could keep the amount due it for care given its poor, and those with an excess would turn the rest over to the federal Treasury for redistribution to states whose collections fell short of their needs. If the act of collection seems too likely to create a sense of entitlement in the collecting state, the federal

government could take full responsibility for collection and distribution.

The tax rates necessary to support the proposed system are reasonable. If all the poor were covered and all hospital revenues were taxed, the rate would be 5.4 percent, based on calculations for 1985. If only the poor under 65 were covered, and Medicare revenues were excluded from taxation, the rate on the remaining revenues would be 5.1 percent. If Medicare revenues were included, the rate would drop to 3.6 percent.

Should Medicare revenues be subject to the tax? If they were, the tax would, of course, have to come out of federal revenues, and thus Medicare's participation would depend on whether additional federal money could be raised, a poor prospect. The answer also depends, however, on whether the system is limited to people under 65 or includes the elderly. If it includes the elderly, then Medicare should pay the add-on. The alternative, which I find attractive, is that Medicare should take over all payment for the elderly, including special help for the poor elderly and long-term care. Medicare would then become the one-stop system, or at least the one-stop payer, for people 65 or older. In this case, it would be exempted from paying the add-on and would need additional funds to fill its new role.

The proposed system would aim to involve local communities in many phases of its operation, both to make the system better and to create a sense of ownership among those using it. In keeping with this aim, and with the philosophy that the benefits of citizenship carry obligations, that involvement should extend to fund-raising. Community fund-raising should be a part of the system. I would not recommend that patients be charged for services. If fees are used at all, they should be used to help control the demand for services, but not first and foremost as a source of funds. Instead, more general fund-raising could take place in the community, along the lines of the United Way campaign, perhaps as part of it in some communities, and both the poor and the better-off would be asked to contribute.

Another important issue is what to do about low-wage employers, who rarely provide good health insurance and many of whose employees would be eligible for care through the system. Consideration should be given to taxing employers who provide little or no health insurance and using the receipts to help fund the system. An employer tax should be designed to minimize its effect on job opportunities.

Finally, if the money were not forthcoming, or just to allow time for all the pieces to fall in place, the system could be phased in, with coverage extended sequentially to different parts of the poor population. Children should come first, and as quickly as possible. I would then phase in adults under 65 by income level, beginning with those having a family income less than 50 percent of the poverty level.

The elderly could be phased in last, or they might not be phased in at all. The alternative, as I suggested earlier, is to have Medicare take over all public responsibility for the

elderly, including supplemental benefits for the poor and long-term care. One of the advantages of this arrangement would be that the system for the poor would no longer suffer from a public relations problem that has troubled Medicaid. Some of the public thinks that the entire expenditure for Medicaid goes to welfare families and, reasonably enough given that misunderstanding, wonders why any more is needed. If spending on supplemental benefits and long-term care for the elderly, which account for about 40 percent of Medicaid's expenditures, were transferred from Medicaid to Medicare, the misunderstanding would be largely corrected.

The Better Option

A health care program for the poor may well serve them better than national health insurance. I have already argued the benefits of specialization for the poor. Part of the argument against national health insurance is an extension of that point. Legislating and creating a national health insurance system would spread the energy for change across the whole population, rather than focusing it on the poor where the need is greatest. Further, proposals for national health insurance focus on paying for services, not providing them. Financing is not the entire problem faced by the poor, nor is it all that is needed for a solution. A system that focuses directly on access and quality, as a system of direct provision could, would address their most urgent needs.

Even when it involves direct provision, national health insurance does not solve the problems of access and quality. The British National Health Service is a good example. In 1975 the British government appointed a committee to look into ways to correct the uneven distribution of medical resources that persisted after almost 30 years of national service. The committee, the Resource Allocation Working Party, wrote that its job was to ensure "equal opportunity of access to health care for people at equal risk." Comparing actual budget allocations with those it would recommend, the Working Party found that the North Western and Trent regions of England had received less than 90 percent of what they needed, while the Northwest and Northeast Thames regions received more than 110 percent of their need. The remaining 10 health service regions fell between these extremes.

The needs of the poor have often been used as an argument for national health insurance, but the poor may not be particularly well served by it. In other countries a national system of insurance or provision was adopted not for the benefit of the poor, but for the benefit of the mass of the population. If the mass of the population in the United States does not want national health insurance, pursuing it as the solution to the poor's problems will only mean those problems go unsolved. Instead it might work better to develop a good system for the poor and let it, by its success, persuade the rest of the population that they would like to become part of it. Whether they are persuaded or not, the poor will be better cared for than they are now.

Putting a Democrat in the White House

William A. Galston

Half a century ago, Franklin Roosevelt set the Democratic party on a new, progressive course. For decades his legacy — economic opportunity, social inclusiveness, international strength — formed the foundation of the party's achievements and the basis of its support. Today this inheritance is depleted. The Democratic party has lost the ability to sustain a presidential majority based on a progressive agenda.

The causes of that decline are not obscure. Some of the party's presidential nominees have campaigned in inhospitable circumstances, and some have been inept. But the chief difficulty goes far deeper. Over the past two decades, too many Americans have come to see the Democratic party, at least at the presidential level, as inattentive to their economic interests, indifferent if not hostile to their moral sentiments, and ineffective in defense of their national security. It is these perceptions, rooted in the history of the past generation, that predisposed crucial portions of the electorate to believe the charges George Bush leveled against Michael Dukakis last year.

For too long Democrats have ignored their fundamental problem. They have focused on fund-raising and technol-

ogy, media and momentum, personality and tactics — on everything except what matters most. Rather than facing reality, they have embraced the politics of evasion. The result has been repeated defeat. And if the party doesn't change, it will keep on losing.

After the reverses of the past 20 years, after the fiasco of 1988, it would be reasonable to expect a spirit of concern, even a sense of urgency within Democratic circles. Instead, complacency is pervasive. "We may lose the presidency," goes the argument, "but we will continue to control both houses of Congress and the majority of governorships and state legislatures. The elections of 1990 look promising. Besides, the presidential winds are bound to shift — indeed, are already shifting — in our direction."

A more shortsighted stance is hard to imagine. To be sure, some developments in 1988 were positive, and if things go badly enough for the incumbent, the Democrats could eventually win a presidential election. On balance, though, the presidential trends are far from favorable; and if Democrats continue to be unsuccessful at the presidential level, the divided government to which the party has grown accustomed may be replaced by trickle-down Republicanism.

In 1992 reapportionment will shift 18 House seats, most of them moving from Democratic to Republican states. The last time reapportionment coincided with a presidential election, Republicans won nearly two-thirds of the open seats. It could well happen again.

The risks are even higher in the Senate. Of the 34 seats up in 1992, Democrats must defend 20, and 11 of those seats are

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held by senators elected for the first time in 1986. Ten of the new senators won with 55 percent or less of the popular vote, 8 with under 52 percent. Four squeaked by with only 50 percent. If the Democratic presidential ticket is weak once again, Republicans could easily gain control of the Senate in 1992.

In short, while political scientists and pundits speak of a "split-level realignment" into a congressional party and a presidential party, rising Republican strength at the presidential level could gradually spread to the Senate and House, governorships, state legislatures, courthouses, and finally to party identification. The process already well under way in states such as Texas and Florida could turn out to be a harbinger of the Democrats' national fate.

Replacing Myth with Reality

Democrats still have time to avert disaster. But to do so, they must discard comforting myths and confront the true dimensions of their decline.

Myth 1: Nonvoters are the problem, and higher turnout is the solution.

Reality: A CBS/*New York Times* post election survey indicated that if every eligible voter had cast a ballot, Bush would still have won — by a larger margin.

Myth 2: Democratic nonvoters are the problem, and selective mobilization is the solution.

Reality: Such a mobilization would help, but it isn't enough to get the job done. A recent study by voting analyst Ruy Teixeira showed that if blacks and Hispanics had voted at the same rate as whites, Dukakis would still have lost the election by more than 4 million votes. If the poor had voted at the same rate as the nonpoor, Dukakis would still have lost by 5 million votes.

While a final judgment must await better data, preliminary analysis suggests that selective mobilization of Democratic core constituencies at national average voting rates would not have changed the results of the presidential election in even a single state.

Myth 3: The rise of upscale professional and white-collar voters has damaged the Democratic party's ability to compete.

Reality: Upper-income voters — those with family incomes above \$50,000 in 1988 dollars — were just as likely to support the Democratic nominee in 1988 as they were in 1976, when Jimmy Carter won 38 percent of their vote. For that matter, lower-income voting behavior has not changed either; 62 percent of the voters with incomes under \$12,500 (in 1988 dollars) supported Carter in 1976, 63 percent voted for Dukakis in 1988.

The most significant change has occurred in the heart of the middle class — voters with family incomes between \$25,000 and \$50,000 — 40 percent of the total electorate. Fifty-one percent of these voters supported Carter, while only 43 percent supported Dukakis.

The stark fact is that the Republican party is no longer the exclusive preserve of the rich. If only voters with family incomes of \$50,000 or less had participated in the 1988

presidential election, George Bush would still have won.

Myth 4: The party's most significant losses since 1976 have come among white Protestants, for whom Jimmy Carter held a special appeal.

Reality: While the swing among southern white Protestants from the Democrats to the GOP has been large, nationally the percentage swing among Catholics has been even larger — by some measures, twice as large. Jimmy Carter won 55 percent of the Catholic vote, Dukakis only 47 percent.

Compared with the benchmark of Reagan's 1984 victory, Bush was 6 points weaker among Protestants but only 2 points weaker with Catholics. Other data suggest that Dukakis's failure to make significant headway among Catholic voters dashed his hopes in such key heartland states as Pennsylvania, Illinois, and Michigan.

Myth 5: Because the party's nominees have feared the

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liberal label, the centrist timidity of their general election campaigns has turned off core Democratic supporters.

Reality: Dukakis won 82 percent of the liberal vote, versus only 74 percent for Carter. Dukakis took 89 percent of the black vote, significantly higher than Carter's 83 percent. Nor is there any solid evidence to support the view that turnout decline since 1976 has been disproportionately concentrated in these two (overlapping) groups.

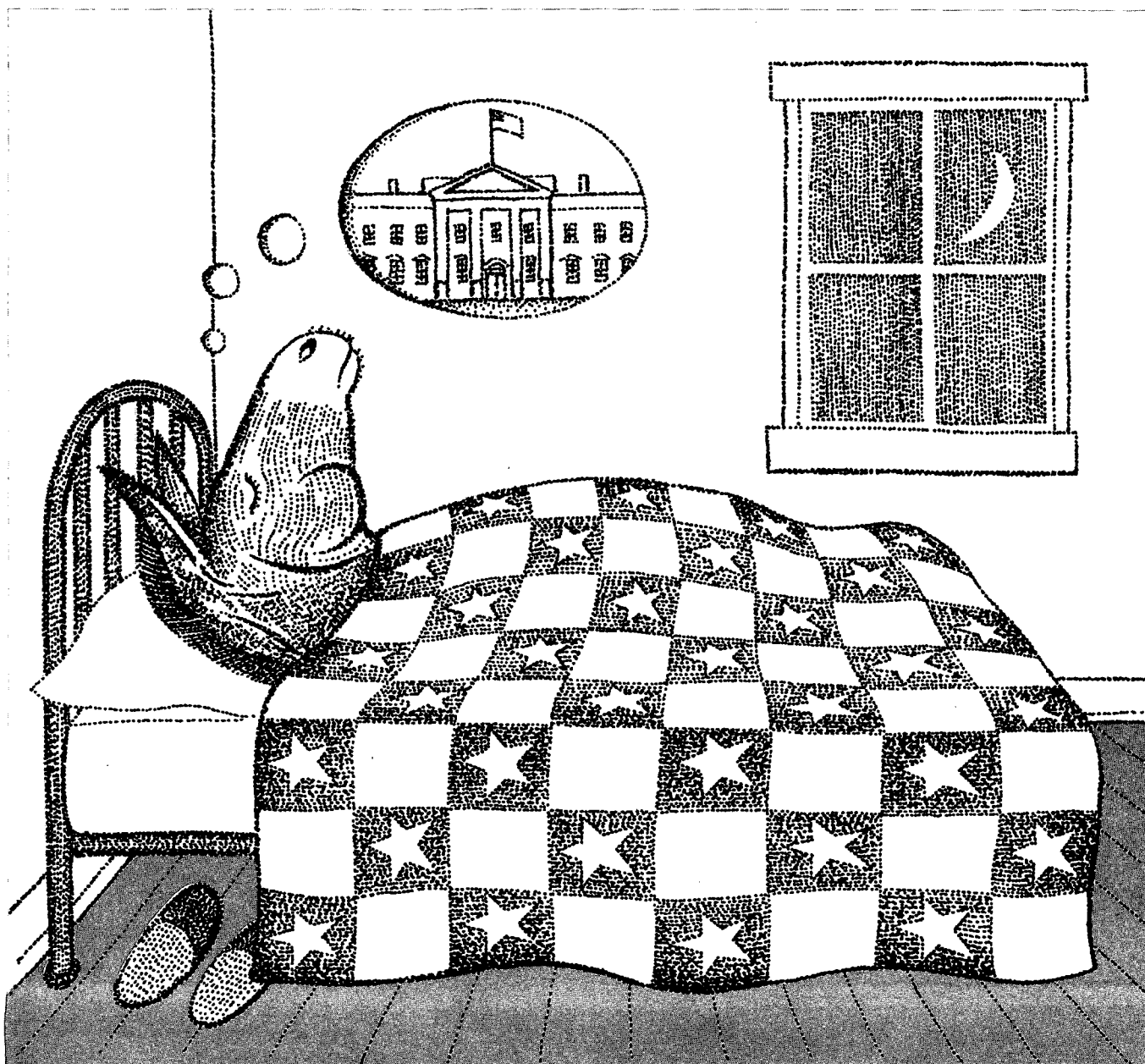
Myth 6: Democratic presidential nominees have been losing because the electorate has grown significantly more conservative.

Reality: At least as measured by voters' self-descriptions, remarkably little ideological change has occurred over the past four election cycles. In 1976, 20 percent of the electorate called itself liberal. In 1988 that figure had dropped only two points, to 18 percent. In 1976, 31 percent of the voters called themselves conservatives. Twelve years later, that

figure was up only two points, to 33 percent.

The real problem is the electorate's perception that the Democratic party's nominees have become more liberal. Carter won the support of 30 percent of the self-identified conservatives in 1976. Dukakis won only 19 percent. This drop in conservative support accounts for more than half of the five-point decline in overall national support from Carter's 50 percent to Dukakis's 45 percent.

Ideological uniformity within the political parties and ideological differentiation between them is more pronounced at the presidential level today than it was 12 years ago. Compared with 1976, liberal voters today are far more likely to vote Democratic, conservatives to vote Republican. This ideological sorting-out has worked to the advantage of Republicans for the simple reason that the number of voters who consider themselves conservative is nearly double the number who call themselves liberal.



Myth 7: The gender gap has worked increasingly in favor of Democratic presidential nominees.

Reality: Dukakis and Carter were each supported by 51 percent of women voters. (By some measures, a slightly lower percentage voted for Dukakis.) By contrast, Dukakis's support among men was nine points lower than Carter's (42 percent versus 51 percent). The gender gap is not the product of a surge of Democratic support among women, but the result of the erosion of Democratic support among men.

In short, the Democratic party has been losing ground among voters, not nonvoters; among the middle class, not the rich or the poor; among Catholics as well as Protestants; among nonliberals, not liberals; among whites, not minorities; among men, not women. Intensified mobilization of groups that still support Democrats is important, but it cannot by itself compensate for the broad erosion of support in other parts of the electorate. The Democratic party has no alternative: if it wishes to rebuild a presidential majority, it must regain competitiveness among the kinds of voters it has lost in the past generation.

Electoral College Math

The party's presidential problem is more than demographic; it is geographic as well.

Of all the myths now current, perhaps the most misguided is the California dream — the conclusion, drawn from the past election by many Democrats, that their rising strength in the West can counterbalance the collapse of southern support for Democratic presidential nominees and that the party therefore doesn't have to work hard at regaining competitiveness in the South.

This latest exercise in the politics of evasion fails the test of basic political arithmetic. Gains outside the South cannot fully compensate for a southern wipeout. If Dukakis had prevailed in all the western states where he had a chance, carried the heartland states he narrowly lost, and won all the eastern states within reach, he still would not have assembled enough electoral votes to win.

The underlying logic of the electoral college shows why. There are 155 electoral votes in the southern and border states, 41 in the Plains and Rocky Mountains states with impregnable Republican majorities, and 23 more in reliably Republican states of the Midwest and Northeast. If the South is conceded to the Republican presidential nominee, he begins with a base of 219 electoral votes and needs only 51 more. New Jersey, Ohio, and Michigan are enough to put him over the top — and George Bush carried them handily, with margins of 8 to 14 points.

It only gets worse in 1992. According to projections from preliminary census estimates, reapportionment will net the states in the Republican base 12 additional electoral votes, for a total of 231. New Jersey and Ohio would be just about enough to give Bush the victory — even if he were to lose California and a host of other states he carried last time.

If Democrats try to win without the South in 1992, the Republicans would be able to concentrate their organiza-

tion, financial resources, and candidate's schedule to win 39 electoral votes in the same pool of states from which Democrats would have to garner 267. (The Democratic nominee begins with the District of Columbia's 3 electoral votes.) The Republican nominee would start holding two pairs while his Democratic opponent would be drawing to an inside straight. If the Democrats are competitive only in states with 310 electoral votes, the odds against their nominee attaining 270 are dauntingly high. The conclusion is unavoidable: if Democrats do not compete — and compete strongly — in every region of the country, their chances of regaining the presidency are vanishingly small.

When I say "every region," I mean just that. The biggest surprise of 1988 was not that Dukakis was trounced in Dixie, but that he failed to prevail in heartland states such as Illinois, Pennsylvania, and Michigan where the costs of Reaganomics have been so high and where class and ethnic identification should have worked strongly in his favor. The Democrats have more than a southern problem, and they need more than a southern remedy.

The Road Ahead

Democrats must choose between two basic strategies. The first is to hunker down, change nothing, and wait for some catastrophe — deep recession, failed war, or a breach of the Constitution — to deliver victory. This strategy has a number of disadvantages. It places the party entirely at the mercy of events. It puts Democrats in the position of tacitly hoping for bad news — a stance the electorate can smell and doesn't like. And it is a formula for purposeless, ineffective governance.

The other strategy — active rather than passive — is to address the party's weaknesses directly. The basic formula is straightforward. The next Democratic nominee must be fully credible as commander-in-chief of the armed forces and as the prime steward of the country's foreign policy; he must squarely reflect the moral sentiments of average Americans; and he must offer a progressive economic message, based on the values of social opportunity and individual effort, that can unite the interests of those already in the middle class with those who are struggling to enter it.

There is almost certainly a powerful constituency for such a message. A wealth of data suggests that the American people are uneasy about the place of the American economy in the world; that they favor a diverse and tolerant society; and that they understand the dependence of strength abroad on economic and social progress at home. They are ready to endorse a program that invests in the future, rebuilds international competitiveness, and helps out with the increasingly unaffordable basics of middle-class life such as first-time homeownership, child care, education, and health.

Adoption of such a program would place the Democratic nominee squarely in the mainstream, on the side of average families. It would help bolster a multiracial coalition based on shared values and common interests. It would be

consistent with the party's historic commitments. And it would be credible. A CBS/*New York Times* poll last year found that 64 percent of the electorate identified Republicans as the party of the rich; only 9 percent thought it favors the middle class, and 20 percent felt it treats all classes the same. By contrast, 24 percent thought Democrats favor the middle class, and 39 percent believed that they treat everyone equally.

The difficulty is that swing voters do not respond to a progressive economic message, even when one is offered, because Democratic presidential candidates have failed to win their confidence in other key areas. Credibility on defense, foreign policy, and social values is the ticket that will get Democrats in the door to make their affirmative economic case. If they don't hold that ticket, they won't even get a hearing.

Consider the figures assembled by a bipartisan consortium of respected public opinion researchers. On election day, 67 percent of the voters thought Bush would deal with

"The next Democratic nominee must convey a clear understanding of, and identification with, the social values and moral sentiments of the vast majority of Americans. The firm embrace of programs, such as national service, that link rights to responsibilities and effort to reward, would be a good start."

the Soviets better than Dukakis would; on arms control negotiations, it was Bush 64, Dukakis 22; maintaining a strong defense, 66 to 22; fighting terrorists, 57 to 26. Even in keeping the country out of war, a traditional Democratic advantage, Bush held a 47-36 edge. More than a third of the electorate, 37 percent, had reached the conclusion that Dukakis would actually weaken national security; only 8 percent thought Bush would. Numerous surveys indicate that these issues were very important to swing voters who eventually decided to support George Bush. The message is clear: if the next Democratic nominee isn't credible to the people as a potential commander-in-chief, he won't be elected president.

On the central social issue of our time — violent crime — the situation was no brighter. Overall, Bush enjoyed a 52-35 edge. Among voters who cared intensely about the death penalty, the margin was 61-24. If the next Democratic nominee can't deal credibly with the challenge of enhancing what Rep. Bill Gray has called personal and family security, he won't be elected president. Once again, it is just that simple.

The Democratic party's vulnerability on social issues goes far beyond crime. In a CBS/*New York Times* poll last year, 73 percent thought that the United States had experienced a severe breakdown in moral standards over the past 20 years; only 22 percent disagreed. But for too many Americans whose support is essential, the Democratic party has contributed to this breakdown. In their eyes, Democrats have become the party of individual rights but not individual responsibility; the party of self-expression but not self-discipline; the party of sociological explanation but not moral accountability.

The next Democratic nominee must convey a clear understanding of, and identification with, the social values and moral sentiments of the vast majority of Americans. The firm embrace of programs, such as national service, that link rights to responsibilities and effort to reward, would be a good start. But Democrats must go further. The American people overwhelmingly believe that the central purpose of criminal punishment is to punish — that is, to express moral outrage against acts that injure the community. It would certainly help if the party's next nominee could articulate this view convincingly and back it with a tough, effective program.

The needed changes cannot come from policy commissions or midterm conventions or party functionaries. They can only come from leaders — candidates for the presidential nomination — with the courage to challenge entrenched party orthodoxies and to articulate new visions. That means the party must give up the litmus tests that have for so long throttled debate. It will mean controversy, even conflict. But productive conflict is far better than a barren and spurious unity.

The Republican party was transformed into a governing party during the 1970s because it was willing to endure a frank internal debate on political fundamentals. Democrats must at long last set aside the politics of evasion and embark on a comparable course.

Of Wolves, Termites, and Pussycats

Or, Why We Should Worry About the Budget Deficit

Charles L. Schultze

For more than six years now the nation has been unable to muster the political consensus needed to deal decisively with the immense federal budget deficit. One of the reasons is that the public and the Congress are faced with three quite different and conflicting views about the economic consequences of persistent large deficits.

One view often heard on Wall Street, in international financial circles, and among some economists is that continued failure to reduce the U.S. budget deficit threatens to cause an economic crisis, characterized by a plummeting overseas value of the dollar, soaring interest rates, and a severe recession exacerbated by financial disturbances.

In marked contrast, several prominent economists and public opinion makers have recently been arguing that the problem of the budget deficit has been vastly overstated and that excessive concern about it is getting in the way of addressing more serious economic and social problems. Here the left of center finds common ground with the supply-siders of the far right. Robert Eisner, Robert Heilbroner, and the left wing of the Democratic party join Jack Kemp, Arthur Laffer, and other supply-siders. Although they come from different analytic and ideologic backgrounds, they all arrive at a common set of conclusions

deemphasizing the importance of the deficit.

Still a third viewpoint, shared by the majority of economists who have addressed the problem, and among whom I find myself, holds that the consequences of perpetuating large budget deficits will be neither explosive nor harmless. Rather, by reducing sharply the nation's already low rates of saving and investment, the deficits will slowly and almost imperceptibly but inexorably depress the potential growth of American living standards (*projected deficit levels, box, p. 28*).

In an economic bestiary, the conventional Wall Street view of the deficit might be characterized as the wolf at the door; the second view as the domesticated pussycat; and the third as the termites in the basement.

Is a Crisis Coming?

It is not at all inevitable that the maintenance of today's large budget deficits will bring on some kind of cyclical crisis. There *are* risks ahead that could be reduced if the deficits were smaller. Nevertheless, with competent management by the Federal Reserve, the United States can very probably continue to muddle through, maintaining economic stability despite high budget deficits, as it has done for the past six years. Those who worry about a crisis, however, see one coming in the form of a "dollar strike." In this scenario, foreigners, observing that budget and current account deficits remain high, suddenly lose confidence in the U.S. economy and desert the dollar in droves. The dollar's exchange value plummets, import prices soar, and

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the U.S. price level rises sharply. To prevent this one-shot rise in the price level from pushing up wages and turning into a persistent and possibly accelerating wage-price spiral, the Fed has no option but to tighten monetary policy severely, raise interest rates sharply, and put the economy through the wringer of a recession.

This chain of events, while not impossible, is also not very likely. In the years ahead downward pressure on the dollar may well continue, but a precipitous dollar collapse is not at all probable. A failure by the United States to reduce its budget deficit would set off a dollar flight only if international investors began to think that the Federal Reserve might become unwilling to stomach the higher interest rates needed to neutralize any inflationary, excess demand effects of the budget deficit.

But the Fed for the past six years has had both the will and the political freedom to do the unpleasant things needed to deal with budget deficits much larger than those now in prospect. Moreover, at an unprecedentedly early stage of the recovery from the 1982 recession, it showed its willingness to push real interest rates far above their historical norms to keep the pace of expansion within bounds. And with U.S. interest rates already well above those in West Germany and Japan, a sudden plunge in the dollar would likely be self-limiting as dollar assets began to look more and more like a good buy.

All in all, the wolf-at-the-door thesis is not likely to prove out so long as the Fed continues to pursue a credible set of noninflationary policies — a quite reasonable assumption given recent history.

The Collapse of National Saving

That we may be able to muddle through, sustaining large budget deficits without a cyclical crisis, does not mean that the deficits do no harm and that we can ignore them. In addition to providing a stable prosperity today, a successful economy must also make provision for tomorrow. It ought to save a reasonable fraction of its income to invest in increasing the stock of productive capital in the hands of the nation's citizens. This accumulation of wealth will in turn contribute to the growth of national living standards.

Yet the national rate of saving and wealth has fallen substantially in recent years. And it is in this important aspect of economic performance that the high level of the federal budget deficit continues to damage the American economy.

National saving consists of two major components — private saving and government saving. A government deficit represents *dissaving*, since an equivalent amount of private saving is absorbed in financing the deficit, leaving that much less available for national investment. The U.S. *net* national saving rate has fallen dramatically, from an average of 8 percent of national income during the first three decades of the postwar period to an average of 2.6 percent in the last two years. Both elements of saving declined. The private saving rate dropped by about three percentage points, to 6.4 percent in 1987–88. And dissaving from the government budget deficit rose to more than 5 percent in 1986 before falling back to just under 4 percent (see table 1). That means that the United States has been on a

spending spree throughout the 1980s, sharply raising the proportion of its income devoted to the combination of consumption and government spending and correspondingly decreasing the fraction of income it saves for the future.

Had the United States been forced to rely only on its own saving, domestic investment would have fallen as sharply as saving did. But because the country was able to finance a major part of its spending spree by borrowing heavily from abroad, rather than by having to scale back investment here at home, net domestic investment in housing construction and business plant and equipment fell by less than two percentage points, compared with the 5½ point drop in the national saving rate. As a result more than half of America's net domestic investment is now financed, directly and indirectly, from other countries (*see table 2*).

Had the country adjusted to its lower private and public saving rates by radically cutting domestic investment in productive assets, the nation's productivity growth, which has already slowed, would have slowed even more, further depressing the growth of American living standards. But because we adjusted to the lower saving rate principally by borrowing from abroad, our living standards will suffer for a different reason — out of our future national income we will have to pay a continuing portion to foreign investors in the form of interest payments on the massive overseas debts we have been accumulating.

If we continue to consume this unprecedentedly large fraction of our national income — a fraction that is excessive in comparison either with our own history or with other industrial countries — the future can develop in two possible ways, neither of which is attractive. First, at today's high U.S. interest rates, foreigners might continue to find the United States an attractive place to invest some of their funds. The dollar would not fall, and the U.S. balance of payments deficit, after declining a bit more, would stabilize at a high level. The United States would continue indefi-

nately to borrow large sums from abroad, steadily increasing the future diversion of national income to overseas interest payments, and further depressing the future path of American living standards.

The second alternative is that foreign investors, despite high U.S. interest rates, might reduce their demand for dollar investments as they perceive a growing risk to the exchange value of their dollar holdings. In that case, the flow of foreign funds into the United States would decline. And then in corresponding amount, we would have to cut back domestic investment here at home to match our own shrunken national saving. The growth of U.S. living standards would suffer, not by further diversion of national income to overseas interest payments, but by a further slowing of the growth in national investment, productivity, and real wages. Either way, so long as the country overspends by running a large budget deficit in conjunction with low private saving, the future growth of the net incomes available to American citizens and their children will be gradually, but surely, eroded.

Making Molehills out of Mountains

Let me turn to the arguments which suggest that the federal budget deficit is not a serious national problem. To start with, a number of people quarrel with the way the budget deficit or private saving is defined. With a proper definition, so the argument goes, the national saving and budget deficit problems would be seen to be minimal.

One set of these views, generally associated with Robert Eisner of Northwestern University, comes from the left. There are four strings to Eisner's bow. First, he would adjust the budget deficit for the effect of inflation on the public debt. Because inflation reduces the real value of that debt, some part of the interest payments received by government bondholders — equal to the inflation rate times the public debt — has to be considered not as income to be consumed, but as an asset transfer needed to restore the real value of wealth and consequently to be saved. Under this view, the part of the deficit that is represented by the inflation adjustment is not income, does not increase demand for consumer goods, and does not lower the national saving rate. It should be subtracted from the deficit. If it were, the current deficit would equal 2½ percent of national income, not the 3½ percent commonly cited. By the mid-1990s the inflation-adjusted deficit would fall to about 1 percent of national income.

It may make sense to subtract the inflation adjustment when estimating the "true" size of the budget deficit, as Eisner suggests. But the whole question is irrelevant to the issue at hand. Making the inflation adjustment does not change the estimate of *national* saving one iota. If the inflation adjustment is subtracted from the deficit because it is not truly income to bondholders, than current statistics overstate not only the budget deficit but also the income and the saving of those same bondholders. The Eisner adjustment simply reallocates national saving among its components: less private saving, less government dissav-

The Size of Future Deficits

Without a major program of tax increases and spending cuts, the annual federal budget deficit is likely to remain in the neighborhood of \$140–\$150 billion for the indefinite future. This estimate is a bit more pessimistic than the forecast by the Congressional Budget Office, which projects that on a current service basis, the deficit will fall to \$120 billion by 1993 and 1994.

The budget office projection, however, does not take into account any spending increases for a whole range of projects the federal government will be under pressure to fund. My estimate makes a modest allowance for the inevitability of some increases. In a growing economy with a rising population, the government cannot hold an absolute line forever.

Table 1. Saving in America
(As a percent of national income)

	1951-80	1984-86	1987-88
Private saving	9.3%	8.1%	6.4%
Government deficit	-1.3	-5.0	-3.9
National saving	8.0	3.1	2.6

Note: National income equals net national product. Surpluses in state and local social insurance funds, mainly pension funds of state and local employees, are classified as private saving.

Source: Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts*.

Table 2. Investment in America
(As a percent of national income)

	1951-80	1984-86	1987-88
National saving	8.0%	3.1%	2.6%
Net inflow of foreign funds	—	3.2	3.5
Net outflow of American funds	0.4	—	—
Domestic investment	7.6	6.2	6.1

Note: National income equals net national product. The domestic investment figure for 1987-88 contains a statistical discrepancy of 0.2 percent.

Source: Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts*.

ing, with no net effect on national saving itself. Moreover, the inflation adjustment as a share of national income has recently been the same as it was on average between 1955 and 1980; the *increase* in the budget deficit since that base period, and its share of the responsibility for the decline in national saving, is just about the same whether the inflation adjustment is made or not.

Second, Eisner argues that some of the federal deficit finances the accumulation of public capital, which adds to the nation's productive wealth. On this account too the true deficit, excluding government capital formation, would be smaller than shown by the current unified budget deficit. To construct such a budget, one must not only subtract gross capital outlays from total government expenditures, but also add depreciation to other operating outlays. Excluding military weapons from the definition of productive capital, which I think is only reasonable, the federal government's net capital accumulation now runs at \$7 billion a year — hardly enough to affect the measured size of the deficit. Net investment by state and local governments is larger — \$22 billion in 1987. But that investment as a share of national income has fallen substantially since the pre-1980 period. Including such investment in the definition of national saving would magnify the size of the recent saving decline.

Third, Eisner and others say that because state and local governments are running a large surplus, the budget deficit for total government is much smaller than the deficit for the

federal government alone. In fact, state and local governments are now running a small deficit in their operating budgets. As defined in the national income accounts, their budgets include the pension funds of state and local employees, which are large surpluses. Were these same employees in the private sector, however, those surpluses would be considered as part of personal saving; it is only a freak of the national income accounting system that treats them as part of the government budget. In table 1, I have reclassified this pension fund accumulation as part of private (personal) saving. In any event, no matter whether these pension fund accumulations are classified as private or as public saving, it does not change in one whit the measure of national saving and the fact of its collapse in recent years.

A final point Eisner and others make is that a substantial reduction in the budget deficit would lead to recession, lower national income, and lower, not higher, saving. According to this view, it is unlikely that the policy mix could be shifted sufficiently toward monetary ease to offset the demand-depressing effect of fiscal restraint. That is reminiscent of Keynesian arguments from 30 to 40 years ago: "You can't push on a string with monetary policy." Whatever its validity in explaining events of the 1930s or the first postwar decade when the U.S. economy was flooded with cash, the argument is sheer nonsense in the current economic environment. If the economy were in a recession,

if monetary policy were already quite relaxed, and if interest rates were at very low levels, then further monetary ease might be unable to offset the effect of a fiscal tightening. But the economy is at or close to full employment, and real interest rates are far above historical norms, conditions under which the old Keynesian fears of the inefficacy of monetary policy to stimulate demand are groundless.

There is indeed a practical limit to the speed at which monetary policy can effectively offset a shift in fiscal policy. The budget deficit ought to be eliminated not all at once but over a number of years. But I lose little sleep worrying that Congress and the president will suddenly agree on an excessively rapid reduction in the budget deficit — it is, to borrow a phrase from Senator Daniel Patrick Moynihan, forty-fifth on my list of fears, following right after my fear of being eaten alive by piranhas.

The Bradford Thesis

In a recent paper David Bradford of Princeton raises another major objection to the analysis underlying the standard observation that the national saving rate has fallen sharply. According to the usual definition, saving is that part of the national output (or income — the two are the same) that is *not* consumed by individuals and government. It is what is available each year to invest in additions to the nation's stock of productive assets — principally residential housing, business plant and equipment, and investment abroad. Bradford argues that this definition is wrong. National saving, he believes, should be defined as the change in the inflation-adjusted market value of the nation's assets. It should therefore count not only annual additions to the stock of assets but also changes in their value, including realized and unrealized capital gains.

His definition paints a very different picture of the recent behavior of the national saving rate. Measured as the change in the real market value of the nation's assets, net national saving averaged 11 percent of national income in the three decades from 1951 through 1980. It also averaged 11 percent in 1985–87. (As might be expected however, annual fluctuations in the saving rate, so defined, were huge; the average annual change in the saving rate was 15 percent of national income, and in several years the saving rate rose or fell by 30 percentage points!)

After all, says Bradford, it is the present value of the stream of future income from wealth that counts. If, for any reason, the market puts an increased value on a given set of assets, that real capital gain represents a legitimate increase in national wealth just as much as an increase in the physical volume of assets does — it presumably represents an increase in the current value of the future stream of national income expected to flow from those assets. The existing cost-based measure of national saving and wealth is therefore inappropriate, either for use in investigating private saving behavior or as a measure of national saving performance.

For purposes of understanding the consumption and saving behavior of individuals, changes in the market value

of their wealth, including capital gains, may be quite relevant. But the aggregate change in the market value of individuals' wealth is not at all a relevant measure of national saving performance.

We are interested in the volume of national saving, and the investment in productive assets that it makes possible, because additions to those assets contribute to future national income and production. But future national income can also change for reasons that have nothing to do with the volume of saving — for example, the future pace of scientific and technological advance may speed up or slow down, or the overseas price of oil may surge or collapse. To some extent expectations about such future developments can affect the current price of corporate stocks, increase or decrease the market value of corporate assets, and so affect the measure of national saving as defined by Bradford. But such developments, however much they affect future national income, have nothing to do with the contribution of current saving and investment to future national income, and hence the capital gains or losses on existing assets these developments generate do not belong in the measure used to evaluate the nation's saving and investment performance.

An even more important objection to the Bradford measure of saving is that the sum of changes in the market value of business enterprises and real estate may have little to do with changes in national productive wealth. Several examples help make this point clear. Legal limits on the supply of taxicabs in New York City, through restrictions on the number of cab medallions, have increased the financial value of those medallions tremendously and thus the wealth of the individuals or businesses who own them. If entry into the taxi business were made free, the financial value of the medallions would collapse, but national wealth would not have fallen; indeed, the future national income would rise. Or, assume a sudden and well-forecasted halt to all new innovations in the United States. The future obsolescence of the existing stock of tangible capital assets would fall to zero, and stock prices of firms owning those assets would soar, but future national production would decline.

To take another case, imagine a sudden large increase in population. Urban land values would skyrocket, even as the disamenities of urban living would increase sharply. This change in market value surely would not mean that the nation had added to its saving, its investment, and its productive wealth. As a final example, suppose that a law were passed prohibiting new entry into any existing line of business. The market value of existing firms would sharply increase, but clearly national wealth would not.

In short, changes in the aggregate of the market value of existing firms and residential real estate often tell little about changes in national wealth. Rather, the proper measure for assessing the nation's saving performance is the definition of national saving used in the Commerce Department's national income accounts — namely, the difference between national income and consumption (by government and bondholders), which, in turn, is equal to the increase in the physical volume of productive assets.

The Barro Hypothesis

Let me turn to a quite different set of arguments that suggest the budget deficit is not a big problem, even from the standpoint of national saving and investment. Represented here are a wide variety of subcategories of different schools of thought. First is the argument put forward by Robert Barro of Harvard, which has some adherents among academic economists. According to this view, infinitely farsighted, ultrarational, and highly beneficent consumers and taxpayers save to achieve long-term, generation-spanning wealth objectives for themselves and their children. Any increases in their immediate disposable income, from a deficit-creating tax cut or transfer payment, are perceived to imply equally large tax increases (plus interest on accumulated debt) to be paid in the future either by themselves or their heirs. They will, therefore, save all of the current increase in income, putting it aside to pay for the future tax increases, to preserve their long-term wealth objectives.

By this reasoning, changes in the budget deficit do not affect national saving, but instead set in motion exactly offsetting movements in private saving. Thus, according to Barro, the recent fall in national saving was not caused by the large growth in the budget deficit, and a reduction in the deficit would not raise national saving.

On the surface, this view is grossly contradicted by the events of the last five years. The increase in the federal budget deficit was accompanied by a decrease, not an increase, in private saving. But the proponents of the Barro

hypothesis have argued that in the absence of the growing federal deficit, private saving would have fallen even further than it actually did. The large rise in stock prices, they say, provided stockholders with large unanticipated increases in their wealth, sharply reducing their incentive to continue saving; thus, had the budget deficit not risen, the personal saving rate would today be even lower than it is.

Douglas Bernheim of Stanford University, in a recent paper for the National Bureau of Economic Research, summarized the theoretical underpinnings and empirical evidence for the Barro hypothesis and concluded, convincingly to me, that it does not stand up. Some additional evidence also contradicts the Barro hypothesis. But let me leave this particular point for the moment and turn to another set of views which holds that the budget deficit is not an important problem.

Some people note that the budget deficit has already fallen from 5½ to 3½ percent of national income and even with no further cuts will drop to 2 or 2½ percent of national income by the mid-1990s. Moreover, they argue, favorable demographic trends will soon reverse the recent decline in private saving. For a long time the country has experienced a falling proportion of adults in the high-saving age group (age 35 to 60). But that group will soon grow much larger as the baby boom ages, and personal saving will return to earlier levels. With the budget deficit declining, and personal saving likely to increase, national saving will not remain at its current low level — certainly it will not remain low enough to warrant incurring the economic costs of the tax increase that would be required to eliminate the budget deficit.

To deal with these arguments three questions must be considered. First, is the personal saving rate only temporarily low; can it be expected to rise again? Second, would a cut in the budget deficit increase national saving, or, as Barro maintains, would it simply result in smaller private saving? Third, what sort of a national saving rate should this country be aiming for, anyway?

The personal saving rate has been falling since the mid-1970s. (Personal saving constitutes about two-thirds of private saving, the remainder being contributed by retained business earnings.) To determine what factors may have been responsible for the decline in personal saving, I fit an econometric equation relating the personal saving rate to other economic developments, including those most often cited as being important saving determinants. I first fit the equation to data for the years 1956 through 1980, and then used the relationships shown there to “forecast” forward the course of personal saving over the next seven years, 1981–87. The relationships developed for the earlier period closely tracked the path of the saving rate since 1980, suggesting that the equation is a good representation of the factors determining saving and permitting me to draw the following conclusions.

— An increase in the budget deficit does raise personal saving and vice versa, but only temporarily. It takes time for taxpayers to adjust their consumption when tax cuts or increased transfer payments raise their income. Very

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soon, though, personal saving returns to its old level. Contrary to Barro's hypothesis, only an insignificant fraction of a permanent increase in the budget deficit is offset by an increase in personal saving.

- A rise in the value of stock prices (adjusted for inflation) does reduce the personal saving rate. About 1 percentage point of the 3¼ percentage point drop in the personal saving rate since 1982 can be attributed to the rise in stock prices since then.
- Changes in the proportion of the population in different age groups do not appear to have been significant factors in changing the personal saving rate. The proportion of high-saving age groups in the population declined steadily from the mid-1960s to 1981, while the personal saving rate rose slightly and then fell. The proportion of high savers stabilized after 1981 and then began to edge up while the saving rate continued to fall sharply. (Not surprisingly, the statistic representing the population share of high savers did not explain any of the fall in personal saving.)

The stock market, the short-run effects of changes in the budget deficits, and other factors incorporated in my equation do not fully account for the drift downward in the personal saving rate after 1975. On the basis of admittedly scanty evidence, this downtrend appears to have halted around 1985. The annual rate of decline was just about the same from 1975 to 1980 as from 1980 to 1985. There are several economic theories about saving motivations which imply that a slowdown in the long-term rate of growth of per capita income will lead to a fall in the saving rate. And after 1973 the growth of per capita income in the United States did slow down. But it is impossible to determine from the data whether or not this decline in income growth is responsible for the downtrend in the personal saving rate.

Saving Targets

In the short run the saving rate fluctuates substantially, and that fact together with uncertainty about the causes of the 1975–85 downtrend make it difficult to predict the future course of private saving. Nevertheless, at a minimum, there is no warrant to believe either that favorable demographic trends will raise the saving rate or that a large part of today's low rate is a temporary aberration that will soon disappear. Until events demonstrate otherwise, the prudent course is to assume that the personal saving rate will continue somewhere near its present level.

If both the personal and business saving rates stay at roughly their recent level, total private saving will run at about 7 percent of national income, compared with a 9¼ percent average in the 30 years before 1980. What does this projection mean, then, for setting targets for the balance in the federal budget in the 1990s?

Let me start by setting a very conservative, minimal target for national saving, namely, the rate of saving that — on its own without further reliance on overseas borrowing — would be needed to support enough investment to maintain the annual rate of productivity growth at its current level of 1 percent. The rate of growth in output per worker is determined by the pace of technological advance, the increase in workers' skills, and other similar factors, plus the amount of investment in capital goods. We have no evidence to believe that the pace of advance in technology, workers' skills, and other such factors will speed up. Given a continuation of the current rate of advance, we can calculate the specific amount of investment, and therefore the specific amount of saving, that will be needed to maintain the current rate of productivity growth.

The saving rate required in the next decade or so to

Table 3. Projected Saving Requirements and Availability, 1989–2000

(As a percent of national income, with 1956–79 comparison)

Net National Saving	1989–2000	1956–79
Requirements		
To maintain business as usual	5.3%	7.6%
Net foreign investment	—	0.5
Additional saving needed for demographic reasons	2.5	—
Total	7.8	8.1
Availability		
Private saving	7.0	9.5
Federal budget surplus or deficit (–)	0.8	–1.3
Total	7.8	8.1

Note: Budget figures apply to the unified budget, which includes retirement trust funds such as Social Security, Medicare, and federal employee retirement. The total saving available in 1956–79 contains a statistical discrepancy of 0.1 percent.

support the investment necessary to achieve this "business-as-usual" objective will not be as high as the saving rate for the decades before 1980. That is so for three reasons. First, the projected growth of the labor force is lower, so the increase in the capital stock necessary to equip the new workers is less.

Second, the pace of technological advance has apparently slowed since the earlier years, so the opportunities to invest profitably in additions to the stock of capital per worker are less. Third, according to the statisticians at the Department of Commerce, the quality-adjusted prices of computers and related equipment, which now constitute a large fraction of business investment, are falling rapidly, as the speed and capability of computers steadily increase. Each average dollar of saving now buys more capital equipment than it used to, producing more investment bang per saving buck.

To maintain the rate of productivity advance at its current pace, then, net investment needs to run somewhere between 5 and 5½ percent of national income. And if the country is no longer going to rely on an inflow of foreign saving, it will have to save 5–5½ percent of its national income to finance that investment. That investment rate is much lower than the 7.6 percent of national income devoted to domestic investment during the 1956–79 period. But it is much larger than the current national saving rate of 3 percent.

Even so, the business-as-usual saving objective is not ambitious enough by a long shot, because it does not take into account the demographic crunch that will come early in the next century when the baby boomers begin to retire and the ratio of retirees to active workers rises steeply. To avoid putting a major burden on the next generation of workers, the nation's saving, investment, and income growth should be increased over and above business as usual.

The magnitude of the additional saving needed is reasonably well represented by the growing annual surplus in the nation's Social Security and other retirement trust funds. The decision, taken in 1978 and 1983, to have this generation of workers pay for a larger portion of its own Social Security retirement benefits can be translated into economic reality only if the annual surpluses in the Social Security trust funds are used to increase national saving, the stock of national wealth, and the future level of national income above what would otherwise have occurred. In practical terms, that means national saving ought to be increased above the business-as-usual level by the amount of the annual surplus in the Social Security and federal retirement trust funds.

Allowing for some increase in payroll taxes to support hospital insurance under Medicare, which is not now fully funded, those surpluses should amount to about 2½ percent of national income by the mid-1990s, which when added to the business-as-usual requirement of 5–5½ percent, gives a target national saving rate of about 8 percent. This more ambitious objective is approximately equal to the pre-1980 average.

"... tax increases and government spending cuts amounting to some 3 percent of national income will be needed to achieve this conservatively defined set of national saving targets. And by the mid-1990s that will require almost \$200 billion of budgetary actions."

If the private saving rate is in the neighborhood of 7 percent, as I expect, then achieving an 8 percent national saving rate would require a government *surplus* of about 1 percent of national income, where the budget is defined to include Social Security. Without further action to raise taxes or cut government spending, however, a budget *deficit* of 2 percent of national income is likely out into the 1990s. Therefore, tax increases and government spending cuts amounting to some 3 percent of national income will be needed to achieve this conservatively defined set of national saving targets. And by the mid-1990s that will require almost \$200 billion of budgetary actions.

You might ask why not try to encourage private saving with various tax concessions and incentives. But that is a loser's game. The payoff to such schemes is small, by the estimates of all but enthusiasts, and the revenue losses involved will end up raising the budget deficit by far more than they stimulate private saving, leaving behind a net decrease in national saving.

We have no really powerful tools to raise the national saving rate to a reasonable level other than through eliminating the budget deficit and transforming it into a modest surplus. In turn, I am absolutely certain that goal cannot be accomplished without a relatively substantial tax increase. Unfortunately, neither the American people nor their political leaders yet seem willing to accept one.

The Enduring Features of American Federalism

Martha Derthick

It is a commonplace of scholarship that American federalism constantly changes.

And it is a commonplace of contemporary comment that the states are enjoying a renaissance. Their historic role as laboratories of experiment is acknowledged with praise. Their executives and legislatures are increasingly active, seizing issues, such as economic development, that the federal government has failed to come to grips with. State courts are staking out positions on individual rights in advance of those defined by the U.S. Supreme Court, while state attorneys general pursue consumer protection and antitrust cases that federal agencies have ignored. The states' share of government revenue has gained slightly on that of the federal government in the 1980s, and considerably surpasses that of local governments, contrary to a pattern that prevailed until the 1960s. The states' standing with the public and with prospective employees has improved. The governors are getting their share of good press and, what may be almost as important, of presidential nominations. As a result, state governments are perceived to have improved their position in the federal system.

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Yet it is worth recalling how different the impression was but a short time ago, and how little has changed in some respects. Early in 1984 the Advisory Commission on Intergovernmental Relations published a much-noticed report, *Regulatory Federalism*, detailing a wide range of new or expanded federal controls over state government. In 1985, in the case of *Garcia v. San Antonio Metropolitan Transit Authority*, the Supreme Court declined to protect the state governments from congressional regulation under the Constitution's commerce clause and then washed its hands of this crucial federalism question. In the spring of 1988 the court removed the constitutional prohibition on federal taxation of income from interest on state and local government bonds (*South Carolina v. Baker*).

Certain regulatory excesses of the federal government vis-à-vis the states have been modified in the past several years; rules regarding transportation of the disabled and bilingual education are two examples. Yet not even under Ronald Reagan did the federal government step back from the new constitutional frontiers mapped out in the last decade or two—frontiers such as the Clean Air Act of 1970, which addresses the states with the language of outright command ("Each state shall . . ."). The president's executive order of October 1987 on federalism may be interpreted as an attempt to draw back, with its rhetorical statement of federalism principles and its instructions to executive agencies to refrain from using their discretion to preempt state action. But to read it is to be reminded of how little unilateral power the president has. The drawing back can

succeed only to the extent the national legislature and courts concur. Nor did the Reagan administration consistently adhere to its professed principles. Substantive policy goals often were in tension with devolution of power to the states; the Reagan administration could be counted on to opt for devolution only when that tactic was consistent with its pursuit of a freer market and lower federal spending.

American federalism is a very large elephant indeed, and it is hard for a lone observer to grasp the properties of the whole beast. One needs to be abreast of constitutional doctrines; of legislative, judicial, and administrative practices over the whole range of government activities, from taxation to protection of civil liberties to pollution control; of the development or disintegration of political parties (are they decaying at the grass roots? at the center? both? neither?); of the volume and locus of interest group activity; of trends in public opinion and public employment, and more. To understand the condition of federalism, one needs to comprehend the functioning of the whole polity.

Granting that the federal system is always in flux, it is harder than one might suppose even to detect the dominant tendencies. While most academic analysts probably would assert that centralization is the secular trend, such distinguished scholars as Princeton political scientist Richard P. Nathan and Brandeis historian Morton Keller have argued that centralization is not inexorable and that the evolution of American federalism follows a cyclical pattern, with the federal government and the states alternately dominating.

Mapping the Terrain

Fighting the customary temptation to concentrate on change, I want to try to identify some elemental and enduring truths of American federalism. I want to map the features of the terrain, a metaphor that may be in fact apt. Our federalism is much like a piece of earth that is subject to constant redevelopment. It can be bulldozed and built up, flattened and regraded, virtually beyond recognition. Yet certain elemental properties of it, the bedrock and the composition of the soil, endure. I will start with propositions that I take to be purely factual and then proceed to others that are more analytical and normative, hence debatable.

The states are governments in their own right. They have constitutions that derive from the people and guarantee specific rights. They have elected legislatures that make laws, elected executives that enforce laws, and courts that interpret them — and not incidentally interpret the laws of the United States as well. State governments levy taxes. Their territorial integrity is protected by the U.S. Constitution, which also guarantees them equal representation in the Senate and a republican form of government. These creatures that walk like ducks and squawk like ducks must be ducks.

Nevertheless, the states are inferior governments. In our pond,

they are the weaker ducks. The stubbornly persistent mythology that governments in the American federal system are coordinate should not obscure that fact. The two levels of government are *not* coordinate and equal, nor did the winning side in 1787 intend them to be. One cannot deny the existence of the Constitution's supremacy clause and the prescription that state officers take an oath to uphold the Constitution of the United States, or the fact that the framers of the Constitution fully expected an instrumentality of the federal government, the Supreme Court, to settle jurisdictional issues in the "compound republic," as James Madison called it. See *Federalist* No. 39, in which Madison makes a feeble, unsuccessful attempt to deny that the court's having this function gives the federal government a crucial advantage.

Whether the federal government has always been superior in fact can certainly be debated. At various times and places its writ did not run very strong. Ours was a different system in the 19th century, and it is significant that the full impact on federalism of the post-Civil War Amendments on civil rights was long delayed. Only recently has the South ceased to have a deviant social system. But on the whole, the federal government has won the crucial conflicts. Surely its ascendancy is not currently in dispute. Not only are the states treated as its administrative agents; they accept such treatment as a fact of life. Not since *Brown v. Board of Education* (1954) and *Baker v. Carr* (1962) have truly strenuous protests been heard from the states against their palpably inferior status.

The states' status as governments, even though inferior ones, gives Congress a range of choice in dealing with them. It may choose deference, displacement, or interdependence. In domestic affairs Congress always has the option of doing nothing, knowing that the states can act whether or not it does. Sometimes Congress consciously defers to the states, judging that the subject properly "belongs" to them. Perhaps just as often, Congress today is not deliberately deferential but fails to act for lack of time or the ability to reach agreement. It defaults. The area of congressional inaction, be it through deference or default, is reliably quite large. It normally includes new issues, such as AIDS or comparable worth. States remain on the front lines of domestic policy, the first to deal with newly perceived problems. Congress tends to defer or default on particularly difficult issues, such as the amount of support to be given to needy single mothers with children.

Congress rarely employs its second option, complete displacement, although explicit invocations of it, using the term "preemption," are more frequent now than they used to be. The third option, interdependence, is very common, I would think predominant. Through some combination of inducements, sanctions, or contractual agreements, Congress enters into collaborative arrangements with the states in the pursuit of national ends. The most common techniques are conditional grants-in-aid, which are characteristic of programs for income support and infrastructure development, and qualified preemptions, which are typical of the "new" regulation, including environmental

protection and occupational health and safety. Congress sets standards but tells states that if they meet or exceed the national standards, they may retain the function, including administration.

The vigor and competence with which state governments perform functions left to them does not protect them against congressional incursions. Here I mean to challenge one of the leading canards of American federalism. Whenever Congress takes domestic action, that action is rationalized as a response to the failures of the states. Congress has had to step in, it is said, because states were not doing the job. The only thing one can safely say about the origins of nationalizing acts is that they are responses to the power of nationalizing coalitions. When Congress acts, in other words, it is not necessarily because states have failed; it is because advocates of national action have succeeded in mustering enough political force to get their way. State inaction may constitute part of their case, but state actions that are offensive to their interests may do so as well. Pathbreaking states have often demonstrated what can be done.

Congress's usual choice, moreover, is to cooperate with the states, not to displace them, and in the relationships of mutual dependence that result, it is a nice question just whose deficiencies are being compensated for. The federal government typically contributes uniform standards and maybe money. The states typically do the work of carrying

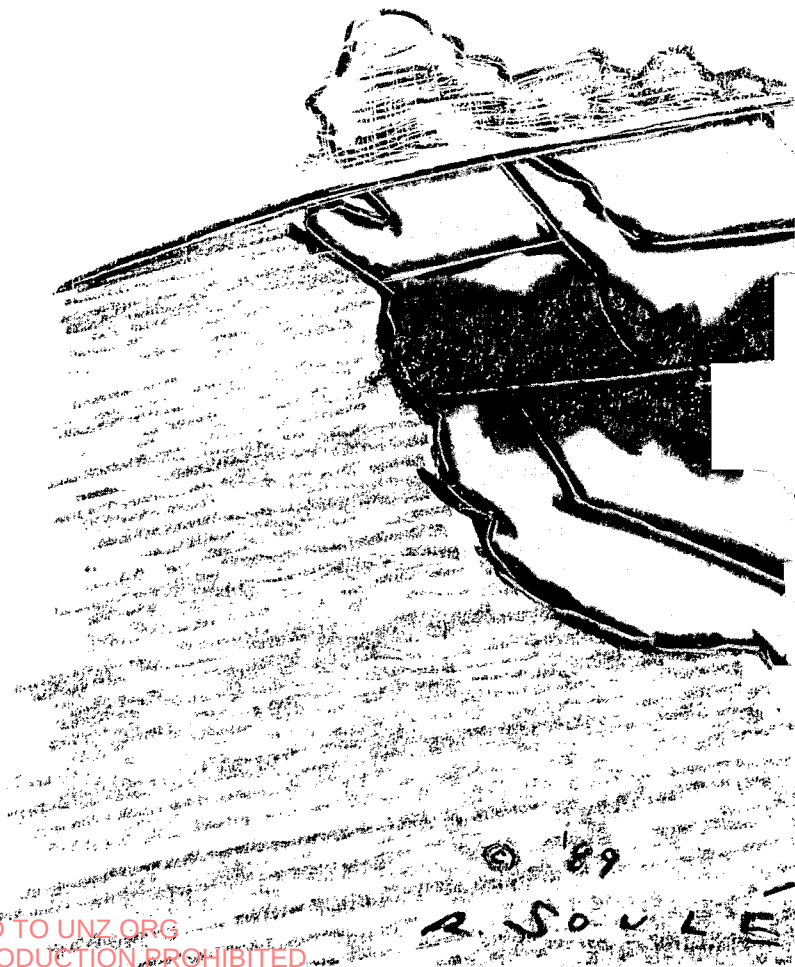
out the function. The more they do and the better they do it, the more they are likely to be asked or ordered by Congress to do.

In cooperating with the states, Congress again has a choice. It can emphasize their status as governments, or it can emphasize their inferiority as such. Our ambiguous constitutional system enables Congress to view the states as equals or as agents. Congress gradually has abandoned the former view in favor of the latter. It has done so with the acquiescence of the Supreme Court, which once tried to defend "dual federalism" — that is, the notion that the states were sovereign, separate, and equal — but which has long since abandoned that doctrine. And Congress does not indulge its agents. Ask any federal bureau chief. Congress is very poor at balancing the ends and means of action. All major federal executive agencies — the Environmental Protection Agency, the Social Security Administration, the Immigration and Naturalization Service, to cite just a few — are laboring under a burden of excessive obligation.

Because states are governments, they may bargain with Congress. Bargaining is the usual mode of intergovernmental relations. State governments, even when treated by Congress as administrative agents, are agents with a difference. Unlike federal executive agencies, they are not Congress's creatures. Therefore they can talk back to it. They can influence the terms of cooperation.

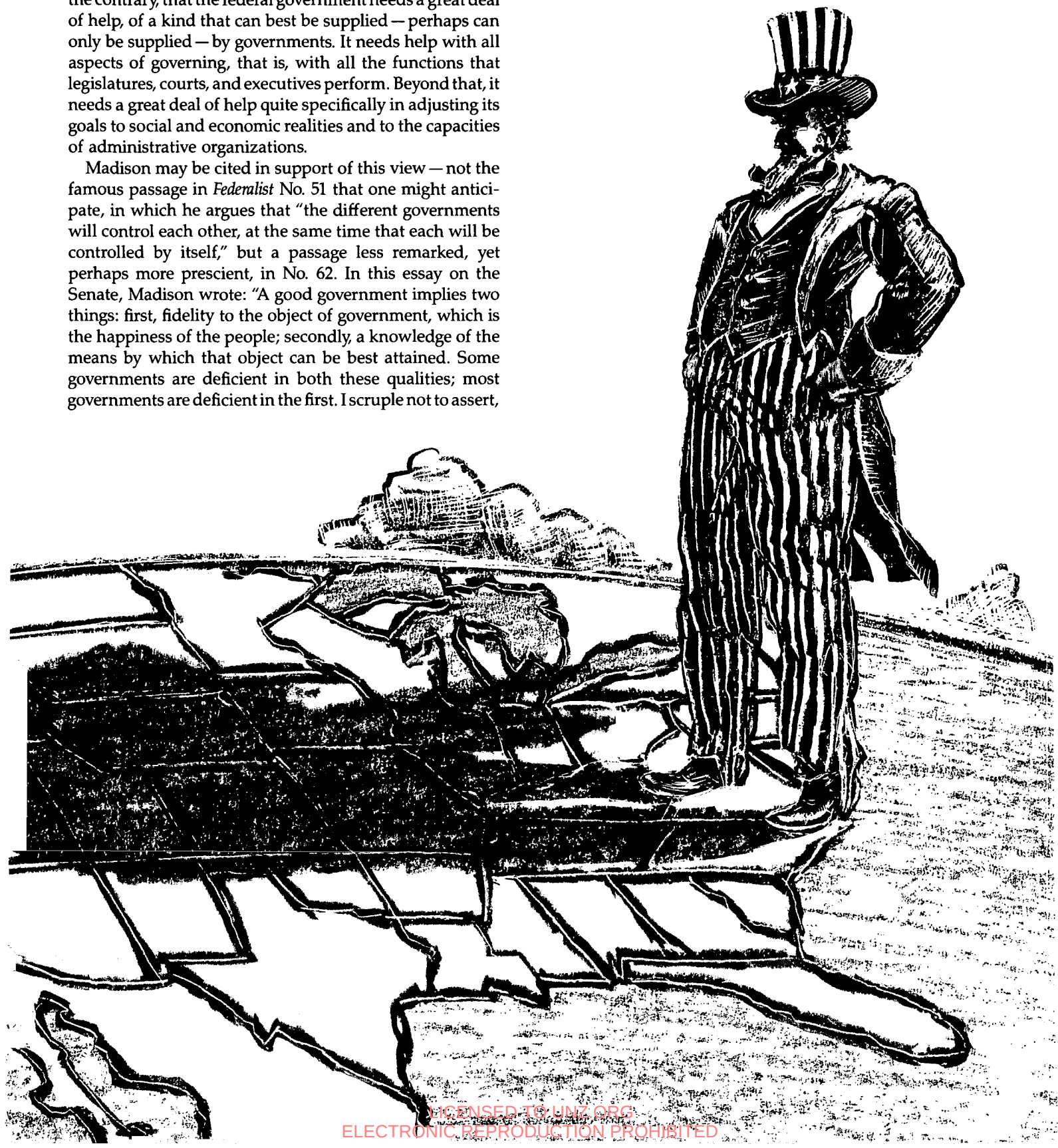
This bargaining between levels of governments is good, depending

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on how the states use it. Here again I mean to challenge what I take to be a conventional view. Fragmentation of authority in the federal system is ordinarily portrayed, at least in academic literature, as a severe handicap to the federal government's pursuit of its goals. The federal government would be more effective, it is commonly said, if it did not have to rely so heavily on other governments. I believe, to the contrary, that the federal government needs a great deal of help, of a kind that can best be supplied — perhaps can only be supplied — by governments. It needs help with all aspects of governing, that is, with all the functions that legislatures, courts, and executives perform. Beyond that, it needs a great deal of help quite specifically in adjusting its goals to social and economic realities and to the capacities of administrative organizations.

Madison may be cited in support of this view — not the famous passage in *Federalist* No. 51 that one might anticipate, in which he argues that “the different governments will control each other, at the same time that each will be controlled by itself,” but a passage less remarked, yet perhaps more prescient, in No. 62. In this essay on the Senate, Madison wrote: “A good government implies two things: first, fidelity to the object of government, which is the happiness of the people; secondly, a knowledge of the means by which that object can be best attained. Some governments are deficient in both these qualities; most governments are deficient in the first. I scruple not to assert,



that in American governments too little attention has been paid to the last."

The deficiency in our attention to the means of government has never been more glaring. All institutions of the federal government — Congress, presidency, courts — have far more to do than they can do, but the executive agencies as the instruments of government action are arguably the most overburdened of all. Perhaps even more glaring today than the federal government's shortfall of institutional capacity is its shortfall of fiscal capacity. It has obligations far in excess of its willingness or ability to meet them. Whether that is a product of party politics or has other causes need not concern us here. The fact of the deficit is plain enough.

State governments help fill the federal government's performance gaps. They do much of the work of governing, as Madison anticipated. Even as an ardent nationalist, at the time of the Constitutional Convention, he held to the view that the national government would not be suited to the entire task of governing "so great an extent of country, and over so great a variety of objects." Just how right he was has never been clearer. But if the states help fill the federal government's implementation gaps, they also are very much at risk of being victimized by them. Congress will try to close the distance between what it wants and what the federal government is able to do independently by ordering the states to do it.

An Appeal to Talk Back

The states are entitled to talk back. As governments in their own right, they have an independent responsibility to set priorities and balance means against ends. Because they are closer to the practical realities of domestic problems and because they lack the power to respond to deficits by printing money, state governments are in a superior position to do that balancing.

This appeal to the states to talk back is not a call to defiance, but a call to engage federal officials in a policy dialogue — and, having done so, to address those officials with language suitable to governments. If states habitually present themselves as supplicants for assistance — supplicants like any other interest group — they will inevitably contribute to the erosion of their own status.

I believe that the states *are* increasingly using the language of governments, rather than supplicants, in their dialogue with the federal government. The enactment in 1988 of welfare reform legislation, which a working group of the National Governors Association helped to shape, is an example. The governors drew on the state governments' experience with welfare programs to fashion changes that would be both politically and administratively feasible, besides containing improved assurances of federal funding for welfare.

There are numerous explanations for the new, more authoritative voice of the states. One is that individually the states have heightened competence and self-confidence as governments, whatever the range among them (and the

range between, say, Virginia and Louisiana is very great). Another is that the decline of federal aid under Presidents Carter and Reagan has compelled greater independence. A third is that self-consciousness and cohesion of the states as a class of governments have increased, as indicated by the development of organized, well-staffed mechanisms of cooperation. Their shared status as agents of Congress and objects of its influence has caused the states to cooperate with one another today to a degree unprecedented in history, even if they remain intensely competitive in some respects, such as the pursuit of economic development.

I have concentrated on relations between the states and Congress to keep the subject focused and relatively simple. But the federal judiciary rivals the legislature as a framer of federal-state relations. Federal courts, like Congress, can choose to emphasize the states' standing as governments or their inferiority as such. Like Congress, over time the courts have come to favor the latter choice, so that states today are routinely commanded to implement the detailed policy decisions of national courts as well as the national legislature.

For the states, it is one thing to talk back to Congress, quite another and much harder thing to talk back to the federal courts. Yet here as well, they have been trying to find ways to talk back more effectively. The National Association of Attorneys General and the State and Local Legal Center, both with offices in Washington, now offer advice and assistance to state and local governments involved in litigation before the Supreme Court. Such governments in the past have often suffered from a lack of expert counsel.

It is no use to portray these developments in federal-state relations as a transgression of the framers' intentions, at least if we take the *Federalist* as our authoritative guide to those intentions. Alexander Hamilton foresaw with evident satisfaction the federal-state relation that obtains today. In *Federalist* No. 27, he wrote that "the plan reported by the convention, by extending the authority of the federal head to the individual citizens of the several States, will enable the government to employ the ordinary magistracy of each, in the execution of its laws Thus the legislatures, courts, and magistrates, of the respective [states], will be incorporated into the operations of the national government . . . and will be rendered auxiliary to the enforcement of its laws." This is exactly what has happened.

What Hamilton would certainly not be satisfied with, however, is the federal government's management of its own administrative and fiscal affairs. One therefore feels entitled to invoke Madison on the states' behalf. It is not enough today that the states help the national government with governing, the function that both Hamilton and Madison foresaw. It is important as well that they perform a modern version of the balancing function that Madison in particular foresaw. This requires that in their policy dialogue with the federal government they assert, as governments in their own right, the importance of balancing ends and means.

Who's in Charge Here?

Congress and the Nation's Capital

R. Kent Weaver and Charles W. Harris

Relations between the federal government and the District of Columbia government are at their lowest point since the District was granted home rule in 1975. The movement for D.C. statehood, or even voting representation in Congress, appears to be dead for the immediate future. The federal drug czar and many members of Congress have made it clear that they lack faith in the administration of D.C. Mayor Marion Barry. Last fall Congress used the District appropriations bill to overturn four laws enacted by the city government, leading to a court battle between the District and the federal government over Congress's authority to force D.C. council members to vote in a specific way. This spring federal legislators, despairing at the city's soaring murder rate, have called for federalization of the District's police department and prisons to the outright end of home rule.

Increasing federal involvement in District affairs should not be undertaken lightly. Residents of the District have just as much right to govern themselves as other citizens of the United States. If the federal government does decide to intervene, it should do so only when the legitimate federal

interest in preserving the city's ability to function as a national capital clearly outweighs the right of local residents to self-governance *and* when federal intervention is likely to produce a major improvement.

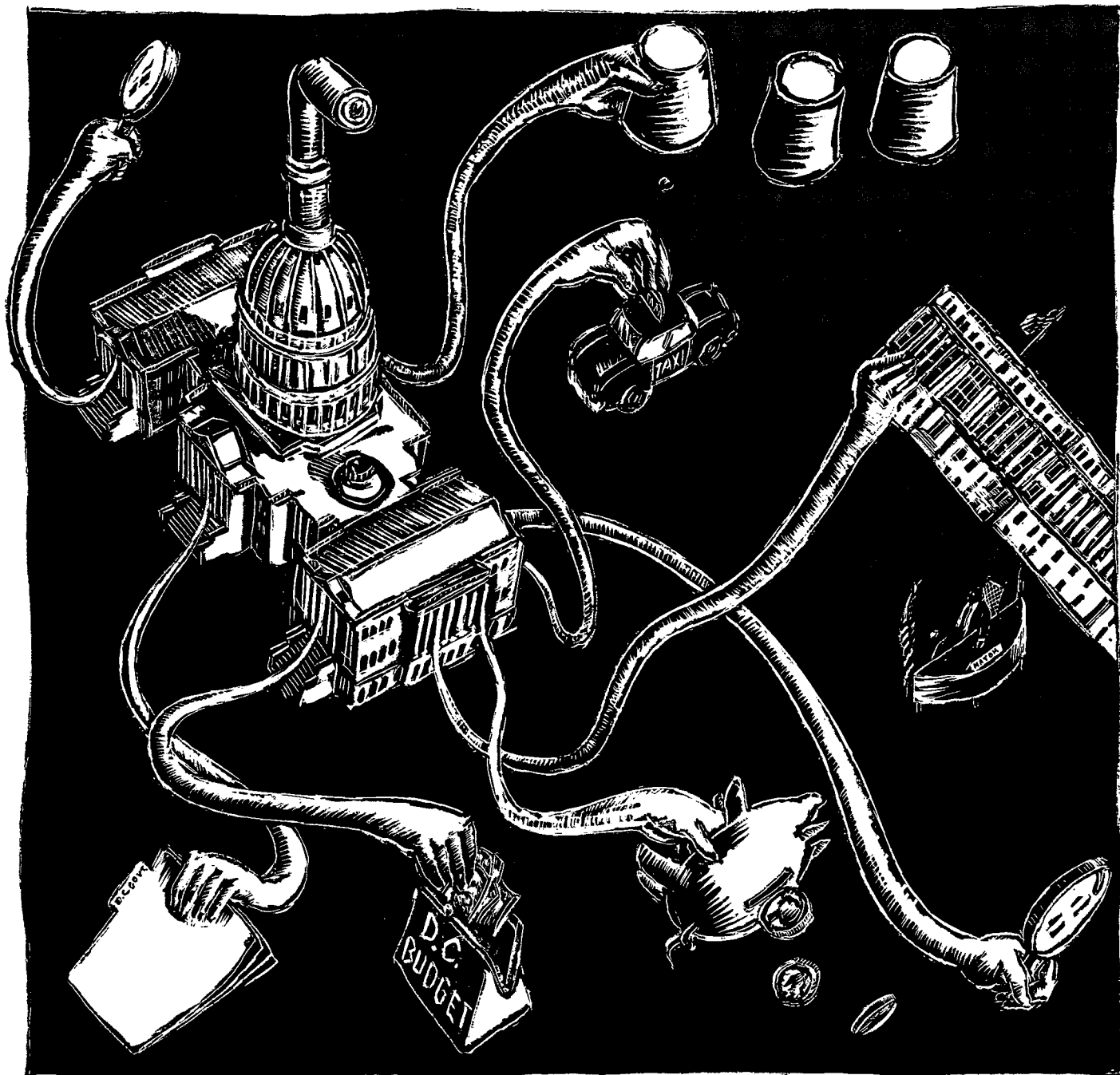
So far the record of federal interventions during home rule suggests that neither of these conditions is met very often. On the contrary, federal interventions have more often represented the assertion of parochial interests or the imposition of particular social or moral values than they have an assertion of legitimate national interests. Increased federal intervention is thus unlikely to solve many of the city's problems. Indeed, the record suggests that in most areas, home rule should be strengthened, not weakened.

Federal Control Under Home Rule

The federal government has many levers of control over the District, even under home rule. Article I of the Constitution grants to Congress exclusive legislative authority over the national seat of government. Congress can, however, delegate these powers to other bodies. For much of the 19th century the city enjoyed varying degrees of self-government. But from 1874 until 1975, when home rule went into effect, Congress served as the primary legislature for the District.

The District of Columbia Self-Government and Governmental Reorganization Act, as the home rule charter is formally named, created an elected council and mayor with broad legislative and executive powers. Now the District

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has two legislatures — Congress and the council — with substantially overlapping jurisdictions. Congress is clearly in the superior position, having reserved for itself “the right, at any time, to exercise its constitutional authority as legislature for the District, by enacting legislation for the District on any subject . . . including legislation to amend or repeal . . . any act passed by the Council.” The council, furthermore, was forbidden to — and still may not — impose a “commuter tax” on nonresidents working in the District, change statutory limits on building heights, alter the jurisdiction of the District’s courts, or lend public credit for any private undertaking. Moreover, local judges are still nominated by the president and confirmed by the Senate.

The charter also created a separate National Capital Service Area, or federal enclave, which was to be adminis-

tered directly by the federal government, but was to use services provided by the District government whenever possible. This enclave includes the White House, the Capitol and congressional office buildings, the Supreme Court, and the federal buildings along the mall. It was approved largely to appease opponents of home rule who feared that the District government might not adequately protect the security of these buildings in case of a riot or other public unrest. No president has ever actually set up the federal enclave, and Congress has never done anything to force the situation.

The federal government retains several additional levers to influence the policies the District government adopts. Most council-passed legislation must “lay over” for 30 days before it goes into effect, giving Congress and the president

an opportunity to veto it. Changes in criminal law face a 60-day waiting period. (These provisions replaced less rigorous legislative veto provisions overturned by the Supreme Court's *Chadha* decision.) If two-thirds of the D.C. council determines that an emergency requires immediate attention, a simple majority may then pass legislation that is not subject to congressional veto, but that emergency legislation may remain in effect for only 90 days.

Congress also retains important fiscal controls over the District government. In addition to the grants that the District and the states receive by formula for specific purposes such as education, welfare, and health care, the federal government also pays the District government an amount to compensate for services the city provides to federal facilities and for revenue lost due to the many tax-exempt federal and foreign embassy properties located in the city. Although authorized several years in advance, the federal payment is appropriated annually, which means that it is subject to negotiation each year between the District government, the federal Office of Management and Budget, and the congressional Appropriations committees.

Perhaps the most important lever is the power of Congress to appropriate the entire District budget, including the share — more than 80 percent of the total — financed by locally raised revenues. Even the smallest and most routine expenditures by the District government are subject to annual congressional scrutiny. Equally important, the annual appropriations bill gives Congress a ready-made vehicle to intervene in virtually any decision the District government makes.

A History of Intervention

How these oversight mechanisms are used — and how often — depends on those controlling the mechanisms. The four congressional oversight bodies for the District do differ significantly in their willingness to intervene (*see box*). But when one level of government has power over another, it is naive to think that power won't be used, particularly when the two levels of government represent very different interests.

If the population of the District of Columbia were a perfect microcosm of the country as a whole, then Congress and the D.C. council would presumably make the same decisions on controversial matters such as abortion and gay rights. But the District is far from a perfect microcosm. Its population is poorer than that of the country as a whole, and much poorer than that of the wealthy surrounding jurisdictions. Its minority population is much higher as well; indeed, blacks form the highest percentage of the population of any major city in the country. The city also has a large and politically active homosexual community. And Washington's political makeup is quite different from that of the country as a whole: an overwhelming percentage of the District's voters are Democrats. As a result, the constituent pres-

sures that influence the votes of a majority of Congress are different from those that influence the votes of the D.C. council.

A brief review shows how these differences play out. It also shows that federal intrusions into D.C. matters are marked more by inconsistency, even meddlesomeness, than by a clear sense of the federal interest.

Public Safety

Issues of public safety and the courts have been a subject of federal-District debate since home rule began. In addition to stipulating that all local judges must be federally appointed, the charter required the mayor to provide whatever police services the president "for Federal purposes . . . deems necessary and appropriate" whenever the president "determines that special conditions of an emer-

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gency nature exist." While this power has never been used, Congress has intervened, or tried to intervene, on several other public safety matters. Two of the most controversial involved gun control and prisons.

Barred by the home rule charter from revising its criminal code, the District government in 1975 put controls on handguns through its authority to issue police regulations. Gun control opponents in Congress, where the issue was a hot controversy in 1976 — an election year — attempted to overturn the regulations through an amendment to the House District Committee's bill extending a ban on modification of the criminal code. Congress passed the amendment, but D.C. courts upheld the regulations anyway.

Federal actions on D.C. prisons have been self-contradictory. Federal courts, for example, have required the city to ease overcrowded conditions at its prison in nearby Lorton, Virginia. Construction of a new prison was a pet project of Senator Arlen Specter while he was chairman of the Senate District Appropriations Subcommittee. Specter pressured Mayor Barry into reversing his opposition to a new facility, but then disputes over where to put it delayed construction for years. The city finally settled on a site, but in 1987 the new chairman of the Senate Appropriations Subcommittee forced a further delay after getting complaints from residents in the neighborhood where the prison was to be built.

To ease the crowding at Lorton, the city council passed a law allowing early releases for certain prisoners. In 1987 Republican legislators nearly succeeded in overturning the city statute on the House floor, failing only by 10 votes and only because Democratic leaders twisted their colleagues' arms to change their votes. At the urging of Rep. Stan Parris, the Virginia legislator who is ranking minority member on the House District Committee, the Republican Congressional Campaign Committee tried to publicize the vote in Democrats' home districts, saying that they were allowing hardened criminals to "wreak havoc" on the nation's capital.

Land Use and Public Works

A dispute over the District's regulation of land use patterns erupted in 1979 when the State Department asked the National Capital Planning Commission to ease restrictions on putting foreign chanceries in certain residential neighborhoods. The commission did so, and the city's zoning commission approved the changes. But under heavy pressure from residents of the affected neighborhoods, mostly in well-to-do areas of northwest Washington, the D.C. council overruled the commission. The State Department then took the matter to Congress, complaining that the D.C. council was interfering in American foreign policy and making it difficult for the United States to obtain favorable treatment for its chancery proposals in foreign capitals. Many of the city's usual friends on the D.C. authorizing committees deserted it to side with State, and Congress vetoed the council action by a large margin. The

lesson here would seem to be that on those rare occasions when the District government steps on federal prerogatives, the federal government has ample tools to intervene swiftly and decisively.

The most acrimonious and destructive dispute over the city's use of its land centered on the city's proposal to build a new convention center in the "old downtown," which had never recovered from the 1968 riots. William Natcher, the chairman of the House D.C. Appropriations Subcommittee fervently supported the project, while his counterpart in the Senate, Patrick Leahy, was vehemently opposed. Opposition to the project also came from Maryland legislators, who didn't want it to compete with a facility in the Maryland suburbs. The standoff stalled action on the entire District budget, forcing the city to operate at the previous year's funding levels for most of fiscal year 1978.

Abortion, Gay Rights

In two notable and controversial areas — abortion and homosexual rights — conservatives in Congress have sought to impose their own moral values on the District. Current federal law prohibits use of federal Medicaid funds for abortions except where the life of the mother is in danger, but it allows the states and the District to use their own Medicaid funds to pay for abortions. Almost every year since fiscal 1980, the House, at the urging of anti-abortion legislators, has adopted an amendment to the city's appropriations bill that would have prohibited such expenditures, but the amendment was always dropped in conference.

That changed in 1988 when administration spokesmen threatened a presidential veto if the District appropriations bill did not bar the city from funding abortions. Considered separately from other spending bills for the first time since 1983, the bill was much more vulnerable to a veto than in past years. Given that fact, and with election day little more than a month away, the House insisted that the funding ban remain in the final bill. District funding for Medicaid abortions has now ceased.

The District's gay community has won the support of city officials on several gay rights matters, only to have Congress overturn the city's actions. In 1981 the council decriminalized several sex offenses, including homosexual activity between consenting adults, and lowered penalties for others, including rape. Although the decision was controversial, neither the Senate nor the House District Committee moved to block it. So conservative Republicans used a discharge petition to force immediate consideration of a veto in the House. (Under the procedures in place at the time, action by a single house of Congress could prevent the changes from taking effect.)

Discharge petitions rarely succeed, but supporters of this particular petition warned that anyone who voted against it could expect to incur a lot of blame. As one House member put it, a vote against the petition would be "saying that God owes Sodom and Gomorrah an apology." When an issue is framed in these terms, arguments about

respecting the District's right to govern itself are not likely to be very persuasive. Both the discharge petition and the motion to overturn the D.C. statute were approved.

Clashes over homosexual rights erupted again in the late 1980s. When the District council in 1986 passed legislation prohibiting insurance companies from requiring AIDS tests as a condition for buying life and health insurance policies, several insurers joined the Moral Majority and other conservative groups to ask Congress to veto the council action. In 1987 Senator Jesse Helms managed to include in the District appropriations bill an amendment that would have frozen all District spending if the council did not withdraw its prohibition within three months. The Helms provision was eliminated in conference, but in 1988 Helms added it again, and this time Congress accepted it. The District backed down.

Legislators used a similar tactic to try to force the city to revise its human rights law, which prohibits discrimination on the basis of sexual preference. District officials used the law to stop Georgetown University, a Catholic school, from refusing the same funding support to homosexual student groups that it gave to other student organizations. Although the city and the university worked out an agreement that allowed the university to fund the group without formally recognizing it, some legislators were not satisfied. They added a provision to the District's fiscal 1989 appropriations bill freezing the city's operating funds within three months unless the city amended its human rights law to allow religious institutions to discriminate against homosexual groups. The city council successfully challenged this directive in federal district court, arguing that a coerced council vote was an unacceptable infringement of the council's First Amendment right of free speech.

Personnel Practices

From time to time Congress has imposed specific personnel practices on the District. Perhaps the most significant congressional intrusion concerned the city's requirement, enacted in 1980, that all its employees live in the District. Other large cities have similar residency requirements, and they are as unpopular with employees of those cities as they are with District employees. But District employees had a recourse that the others did not—they could appeal to Congress. Led by the police and firefighters' unions, city employees in 1988 managed to get a provision in both the Senate and House versions of the D.C. appropriations bill that would prohibit the city from using any of its funds to enforce the residency requirement. Before the final version of the appropriations bill was enacted, city officials announced that they would suspend enforcement of the requirement and try to replace it with a system acceptable to Congress. Conferees on the appropriations bill removed the funding cutoff provision but set a deadline for the city to repeal the residency requirement.

Many federal interventions in District personnel policies have clearly involved micromanagement. Congress, for example, has repeatedly used appropriations bills to

require the District to have a specific minimum number of uniformed police officers. And after it was discovered that some high-ranking police and fire officials had increased their pensions by retiring on disability, Congress tightened requirements for determining whether an officer was disabled. At the same time, Congress stipulated that if future disability retirements exceeded a specific rate, the federal payment to the District would automatically be reduced. As a result the District has had to retain on active status public safety officers who are limited in their physical abilities.

Micromanagement

These two cases are only the tip of congressional micromanagement. Congress has ordered the D.C. fire department to buy scuba equipment and train divers so that they might more quickly rescue people whose cars have plunged into water. After heavy lobbying by the city's firefighters' union, it has blocked the closing of the firehouse nearest the Capitol, arguing that increased terrorist threats made it necessary to keep the station open. And it has required that nonresident tuition at the University of the District of Columbia be at least equal to that of other area public universities, presumably to prevent U.D.C. from poaching students.

Most of this micromanagement has been relatively harmless. In a fit of Soviet-tweaking in 1986, for example, the Appropriations committees directed that the District change the mailing address of the Soviet chancery in Washington to "No. 1 Andrei Sakharov Plaza," after the Soviet dissident. Never mind that the chancery does not sit on a plaza. And the Appropriations committees have repeatedly forbade District taxis to use meters because the existing zone fare system benefits riders to and from Capitol Hill.

Some actions have had more serious consequences, however. After home rule took effect, the Appropriations committees still continued a long-standing practice of setting by statute a limit on the amount that the District was allowed to pay the Potomac Electric Power Company for street lighting. The city's public service commission, which had approved a higher rate, was forced to lower it and develop a new rate structure that, in effect, made other users subsidize street lighting costs.

The Roots of Conflict

We suggested at the outset that federal interventions in District affairs should be judged by two criteria: whether they protect clear federal interests, and whether they improve conditions. The record of interventions in the home rule period suggests that most federal actions do not meet either of these criteria. Federal interventions in District affairs have frequently gone beyond the areas in which the federal interest is clearest: public safety and land use. And even within these two areas, the federal interest at stake has sometimes been questionable—witness congress-

Capitol Hill's Eyes on the District

Congressional oversight of the District of Columbia is concentrated in four bodies: the District of Columbia Committee and the Appropriations Subcommittee on the District of Columbia in the House, and the Governmental Affairs Subcommittee on Efficiency, Federalism and the District of Columbia and the Appropriations Subcommittee on the District of Columbia in the Senate.

Until 1972 the House District Committee was dominated by southern conservatives. But in 1973 it acquired a black chairman, and since 1979, Democratic membership has been concentrated among black legislators. Five of the seven Democrats now on the committee are black.

Moreover, contrary to the common belief that the District committees are unpopular assignments that members switch out of as soon as possible, Democratic members on the House District Committee now tend to serve for a relatively long period — an average of more than 12 years at the end of 1988. Leadership has also been stable, with only two chairmen since 1973.

The change to a stable, black-dominated committee resulted in large part from a substantial downsizing of the committee, from 24 in the 93rd Congress (1973–74) to 11 currently, and increasing norms of self-selection for committee membership in the House.

Despite these changes, one feature remains constant: the committee is a low priority for most members except the chairman, the District's delegate, and the ranking minority member. Because most committee members of both parties are not very active, the committee's Democratic leadership can count on (if only by proxy votes) a stable pro-District majority.

From 1977 to 1987, the committee also had a very pro-District ranking minority member, Stewart McKinney of Connecticut. The level of partisan conflict on the committee increased substantially after McKinney's death,

however. His replacement, Stan Parris (R-Va.), is a consistent critic of the D.C. government. His district houses the city's major correctional facility, the Lorton prison. Problems at Lorton have made criticism of the District government a "good issue" for Parris. Although Parris almost always loses in committee, his position gives him greater visibility and credibility in mobilizing opposition to the District government on the House floor.

The House District Appropriations Subcommittee, like the authorizing committee, has also had increasing black membership (and leadership) in recent years. The membership trend has been weaker than on the District committee, however.

Both Senate panels have been characterized by very high turnover and low interest. There have been no blacks in the Senate since 1978. Nor are District issues as important to senators from neighboring states as they are to representatives from nearby jurisdictions. Since 1969 only one senator from Virginia or Maryland — Republican Charles Mathias of Maryland — took sufficient interest in District issues to serve on the Senate's authorizing body. The Senate's overall lack of interest was symbolized by the downgrading of the Senate District of Columbia Committee to a subcommittee of the Senate Governmental Affairs Committee after 1976.

Turnover is even greater on the Senate's District Appropriations Subcommittee. Only two senators in the past two decades have served as long as eight years. The panel has had 10 chairmen since 1967; the House subcommittee has had three since 1961.

Because the House District Committee majority is pro-city and its Senate counterpart is relatively passive, very little federal intervention in District affairs begins in the authorizing committees. While 30 formal resolutions to veto District legislation have been introduced on 16 different subjects, only

two have been adopted. And in one of the two cases (reform of sex offender provisions of the criminal code), the veto was passed over the objections of the House District Committee, while the Senate did not act at all.

This pro-District role has not been without costs for the committee, however. Like other committees that are seen by other members as "captured" by the interests they oversee, the House District Committee has found it difficult to win floor approval for its own agenda. Its efforts to increase the city's autonomy — from a statehood initiative to selection of its own judges — has met with little success in the rest of the House. As a result, the committee has been reduced to pursuing a negative agenda, that is, blocking federal initiatives that challenge local autonomy. And even here it has sometimes lost, as it did on criminal code reform. There is, of course, a significant irony here: the pre-1973 House District Committee, dominated by southern conservatives, also pursued a largely negative agenda in the opposite direction — prevention of home rule.

The appropriations process has become the most used channel of federal control over the District because the D.C. spending bill must pass Congress every year. Appropriations Committee members who want to influence or overturn a particular District action can easily insert a provision in the bill that will escape the attention of Congress at large unless it arouses opposition from interest groups or threatens members' interests.

Furthermore, the appropriations bill is a ready vehicle for floor amendments affecting the District. Members opposed to a District policy on an issue of high symbolic resonance such as gun control or gay rights are relatively safe in attacking that policy on the floor — they cannot be held accountable by District residents but can win support among their own constituents or important interest groups for their stand.

sional insistence that a particular firehouse stay open. In other instances, as in the case of prison overcrowding, the federal government has given the city conflicting signals. Nor can the city always count on Congress to stick by its original decisions — the recent congressional reversal on abortion funding is a case in point.

This is not a record that inspires confidence that a larger federal role would lead to better government. When federal interests are clearly at stake and the solution is clear, the federal government has ample means to intervene, as it did in the chanceries dispute. When the solution is not clear or rival interests are in conflict, Congress has done what it usually does: debate, berate, obfuscate, or stalemate.

The most disturbing aspect of our analysis is its finding that the federal government intervenes most often for reasons other than to protect a legitimate national interest. Parochial interests motivate many intrusions. The fact that most legislators do not have a strong interest in most D.C. matters gives strong opportunities to legislators who do. Legislators from nearby Maryland and Virginia districts do not always have the same interest in or share the same views on District matters, but when they are united, as they were in opposing the D.C. commuter tax, they are a very formidable force in congressional policymaking.

Interests within the city, notably historic preservationists and the police and firefighters' unions, have often successfully used Congress as an appeals board after they have lost a political battle with the D.C. government. And Congress has intervened to protect its own interests — requiring cabs to keep the zone fare system is a prime example.

On questions of social or moral values, legislators have repeatedly challenged District policies that differed from their views — although not necessarily from those of state and local jurisdictions that are not subject to constant congressional control. Leaders of successful efforts in 1988 to overturn city policies on abortion funding and homosexual rights stressed that they were not attacking the District or home rule *per se*. As Senator Charles Grassley (R-Iowa) put it, "On [these] issues . . . the city just happened to be a victim. . . . The city became a battleground for two larger social issues. It just happened to be there at the wrong time."

General mistrust of the D.C. government, and especially of Mayor Barry, is another motivator of congressional intervention. Mistrust is perhaps most obvious in the creation of the federal enclave and in Congress's refusal to transfer appointment authority for District judges from the president and Senate to the mayor and District council. This mistrust also underlies, with varying degrees of subtlety, many other congressional actions, especially in personnel matters. Perhaps most important, however, distrust has eroded any tendency legislators might have to give the District the benefit of the doubt where the federal interest is questionable.

The low esteem that many legislators have for the D.C. government is no secret; many agree with Representative Parris that the "city has been mismanaged by those in power for too long." In some cases, these opinions may

have racial — even racist, as the District's delegate to Congress has charged — overtones. But they also reflect frequent press reports of alleged abuses or administrative problems in the D.C. government, criminal convictions of a number of the mayor's top aides, and widespread concerns about Barry's personal conduct.

Congressional mistrust of the D.C. government should not be confused with "District-bashing" — criticism of the D.C. government in the expectation of political gain. District-bashing is fairly limited, because it carries few benefits for most members of Congress. Legislators have opposed District government decisions where they felt that their own political interests were at stake, especially on questions of moral values. They have done so because, as Senator Grassley noted, they have not wanted to be blamed for being on the "wrong" side of an issue, regardless of the jurisdiction involved. Representative Parris, whose Virginia district houses D.C.'s Lorton Reformatory, is one of the few congressional practitioners of District-bashing because he is one of the few legislators who have a possible incentive to do so.

Finally, some federal interventions have resulted from what might be called "standard operating procedures." Because Congress appropriates the District's budget, it tends to treat the city just like any other part of the federal government rather than like an independent state or locality. Thus, the Appropriations committees impose personnel ceilings and limit travel allowances because that's what appropriators do.

Toward Real Home Rule

Some conflicts between governments with shared jurisdictions are inevitable, but many can be avoided. Some conflicts may be beneficial, but others are counterproductive. Many — too many — of the conflicts between the federal government and the District of Columbia are neither inevitable nor beneficial.

Because there is no definitive, generally accepted test of what does and what does not constitute a legitimate federal interest, the District government depends almost exclusively on federal restraint to prevent interventions that contravene the spirit — and sometimes the letter — of the home rule charter. That restraint has been exercised too little.

Even the federal interventions that are relatively harmless instances of micromanagement send a powerful and dangerous message; namely, that virtually no District government policy is off limits. Legislators seeking to overturn the city's funding of abortions repeatedly referred to instances of micromanagement to justify their own initiatives. And in one sense they are correct — District policies on abortion are as much a matter of legitimate federal concern as District taxi fares are. The real question, of course, is whether the federal government has any business getting involved in either issue.

Moreover, the current system of federal control has perverse effects on the District's political system. It encour-

ages interests that disagree with city policies to run to Congress for redress rather than working for political change within the District. It frees the District government from having to take responsibility for many of its own actions because Congress steps in. (For example, because Congress overturned the AIDS testing ban, the city did not have to face the full consequences of insurers' unwillingness to write new individual life insurance policies.) And it encourages the city to seek additional federal funding rather than solve its own fiscal problems. In short, it encourages just the sort of political immaturity that congressional critics of District affairs are always decrying.

Whatever its own failings, the District of Columbia government has little to learn from Congress about how to run a city. Structural reforms are needed to ensure that legitimate federal interests are protected, but that intrusions into primarily local matters are reduced.

Congressional meddling in District affairs can be limited in three ways. First, the Constitution could be amended to allow Congress to intervene only to protect statutorily defined federal interests. Currently, the federal interest is whatever a majority of legislators is willing to say it is. A constitutional amendment would allow District officials recourse to the courts if they felt that Congress had overstepped legitimate boundaries of the federal interest. The District's continuing dependence on congressional goodwill suggests that the city would turn to the courts sparingly. But the fact that an appeal could be made might deter the most egregious congressional usurpations of authority, and where a legitimate conflict arises, the courts could balance local and national interests in a way that Congress too rarely does today.

This approach faces severe political hurdles, however. It is highly unlikely that Congress would agree to curtail its legislative authority over the seat of national government, or that three-quarters of the states would approve if Congress did agree. Such an amendment may not be advisable in any case. Limiting federal intervention to specifically enumerated and narrowly defined situations might prevent interventions where a clear federal interest arises on a previously unanticipated issue. Realizing this, Congress and the president would almost certainly draw intervention powers broadly and retain residual powers — leaving the status quo unchanged.

A second approach to reducing inappropriate interference is embodied in current proposals to create a state of New Columbia. This new state would include all of the current District except the federal enclave. The statehood option also faces severe political difficulties, however. Many federal operations and almost all foreign chanceries are outside the federal enclave. Believing, and rightly so, that there must be some mechanism to protect federal interests in this broader area, many legislators are unlikely to approve a narrowing of the District's boundaries to the enclave.

While it may not be feasible to create a new state, the District should be given some of the advantages of statehood. In particular, the District's political leadership

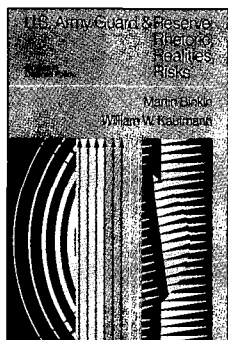
should renew its campaign to win voting representation in Congress for the city's residents. Congress narrowly approved a constitutional amendment in 1978 that would have treated the District like a state for purposes of congressional representation, but the amendment was not ratified by a sufficient number of states. Several changes could make the proposal more politically attractive to members of Congress and state legislators. First, the District could be allotted one senator instead of two, denoting its status as a district rather than a state. Second, the House of Representatives could be enlarged so that no state would lose a seat as a result of giving one to the District. At a minimum, one more seat could be added — the number to which the District would be entitled under current apportionment. But a modest increase in the number of seats — say, to 439 from the current 435, might win support from members of Congress and state legislators whose states would otherwise lose a representative in the next round of reapportionment.

The most promising way to minimize federal intervention is to limit uses of the mechanisms that have been most prone to federal abuse. The Appropriations committees have been by far the greatest transgressors in local matters. These committees have used their power over the D.C. government almost constantly. Many of these interventions have been buried in fine print seldom debated outside of the committees. These repeated interventions through appropriations have been used, for the most part, not to assert legitimate national interests, but to assert parochial interests, the moral views of particular groups of legislators, or legislators' delight in exercising power through micro-management. The District appropriations bill has also been used as a vehicle for further interventions through floor amendments. When asked to defend invasions of local jurisdiction, appropriators can always reply that they are merely protecting the taxpayers' money, as represented by the federal payment to the city.

To remedy these problems, the Appropriations committees should be stripped of their authority to tell the city how to spend its funds. Congress's authority over District funds should be limited to setting the size of the federal payment. The amount of the payment itself should be determined by a formula that is based on the expenses and revenue losses the District incurs by serving as the seat of national government. Even if the payment is not made a legal entitlement, it should be considered as a revenue-sharing grant, rather than as a vehicle to which innumerable strings are attached.

In addition, the House and Senate Appropriations subcommittees on the District of Columbia should be abolished, and the responsibilities for setting the federal payment transferred to other subcommittees. Institutions exist to exercise power, and it is perhaps unrealistic to expect them to refrain from doing so. Instead of reforming procedures, a much more direct approach to the problem of institutions that abuse power is simply to abolish them. In this case, an abolition could occur with little damage to the interests of either the District or the republic.

Relying on the Army Reserves



Since the early 1970s the U.S. Army has become increasingly dependent on its two reserve components, the Army National Guard and the Army Reserve. Today, citizen-soldiers bear unprecedented responsibilities for the nation's defense. The Army's reserve components account for more than half of the trained manpower in the Total Army, and they are assigned missions vital to both the warfighting capabilities and the sustainability of the Army. In a distinct break with the past, many reserve units are expected to deploy on as tight a timetable as active units. Indeed, 9 of the 18 active divisions could not fully deploy unless accompanied by the reserve combat brigades or battalions that fill out their structures.

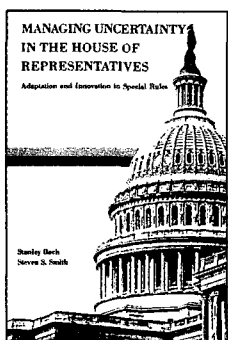
In this new book, *U.S. Army Guard & Reserve*, Martin Binkin and William W. Kaufmann assess the implications of these trends. They conclude that even when the reserve components are credited with quite reasonable performance, considering deficiencies in the equipment and amount of training they receive, the U.S. Army is not as ready as the rhetoric implies to execute the worldwide "strategic concept" involving multiple contingencies in Europe, Asia, and the Caribbean. The authors present the principal options available for improving the situation and describe the course of action they would pursue.

Binkin is a senior fellow in the Brookings Foreign Policy Studies program and the author most recently of *Military Technology and Defense Manpower* (1986). Kaufmann, a consultant at Brookings, is professor emeritus of MIT and lecturer at the Kennedy School of Government of Harvard University.

U.S. Army Guard & Reserve: Rhetoric, Realities, Risks

By Martin Binkin and
William W. Kaufmann
\$8.95 paper

Changing Rules in the U.S. House



Reforms in the House of Representatives during the 1970s brought new uncertainties to decisionmaking in the House. New issues and new members disrupted old ways of doing business, while organizational and procedural reforms redistributed influence and resources in ways not always anticipated. One result was a marked increase in the variety of issues raised and alternatives presented on the floor of the House. As Stanley Bach and Steven S. Smith write, "it became harder to know which members would propose what amendments and how likely they were to win."

In response, the House Rules Committee and the Democratic leadership devised new strategies in the form of special rules, which structure floor debate and the amending procedure on major legislation. Special rules have been critical to the course of House floor debate since the 1890s, but during the last decade they have become more complex in their form and varied in their

Managing Uncertainty in the House of Representatives

By Stanley Bach and
Steven S. Smith
\$8.95 paper; \$22.95 cloth

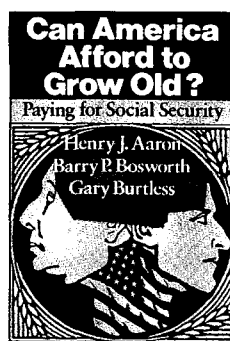
provisions — and also more likely to be restrictive in their effect on amending activity, unfairly restrictive in the view of some, particularly members of the Republican minority.

In their book, *Managing Uncertainty in the House of Representatives*, Bach and Smith examine the circumstances that led to innovations in special rules, the changing frequencies and patterns of their provisions, reactions to these developments, and the consequences of such procedural innovations for House politics and policymaking. Bach is a specialist in the legislative process at the Congressional Research Service of the Library of Congress. Smith, a former senior fellow at Brookings, is associate professor of political science at the University of Minnesota.

Financing Retirement

Can America Afford to Grow Old? Paying for Social Security

By Henry J. Aaron, Barry P.
Bosworth, and Gary Burtless
\$7.95 paper



Ten years ago, Social Security, the nation's public retirement system, faced serious deficits. In 1978 and 1983 Congress restructured the tax and benefit system so that the baby-boom generation would pay enough into the system to finance its own retirement in the 21st century. Now the Social Security trust funds are in surplus. The annual surplus, more than \$40 billion in 1988, is projected to grow to \$100 billion in the 1990s and to even higher levels in the future. But will current taxes together with these reserves be sufficient to pay currently promised benefits? And how should the growing surplus in the trust funds be used in the interim?

In a new book, *Can America Afford to Grow Old?*, Henry J. Aaron, Barry P. Bosworth, and Gary Burtless find that contrary to current official projections, either Social Security taxes will have to be raised or benefits cut to handle projected costs. The size of a tax increase or benefit cut depends on how the country decides to use the Social Security surplus.

The authors conclude that if the reserves now being accumulated are used to boost the national saving rate, add to the capital stock, and thereby enhance future incomes, the burden of retirement benefits on future workers will not exceed the burden on current workers. Currently, however, the reserves are not saved but are used to offset massive deficits in other federal programs. If that policy continues, future benefits will have to be financed through sharply higher tax burdens on workers or retirees.

The authors, senior fellows in the Brookings Economic Studies program, examine the implications and effects of these and other alternatives on both the future of Social Security and the general economy. "The accumulation of large Social Security surpluses presents a unique opportunity to increase the depressed saving rate of the United States," they conclude. "We think it important to use this opportunity."

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